CALIPATRIA STATE PRISON

Audit Report

PAYROLL AUDIT

August 1, 2015, through July 31, 2018

BETTY T. YEE
California State Controller

July 2019

BETTY T. YEE
California State Controller

July 31, 2019

Warren L. Montgomery, Warden
Calipatria State Prison
P.O. Box 5001
Calipatria, CA 92233

Dear Mr. Montgomery:

The State Controller's Office audited the Calipatria State Prison's (CAL) payroll process for the period of August 1, 2015, through July 31, 2018.

Our audit found material weaknesses in internal control over CAL's payroll process. These weaknesses contributed to CAL employees' excessive vacation and annual leave balances, and improper and questioned payments, costing the State an estimated net total of $3,239,512.

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

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Audit Report

Summary

The State Controller's Office has audited the Calipatria State Prison's (CAL) payroll process for the period of August 1, 2015, through July 31, 2018. CAL'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. We completed our audit fieldwork February 8, 2019.

Our audit determined CAL:

- 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 weakness:
  - Lack of adequate segregation of duties and compensating controls over the processing of payroll transactions (see Finding 1);
  - Inappropriate keying access to the State's payroll system (see Finding 2);
  - Lack of sufficient controls over the processing of specific payroll related transactions to ensure that CAL complied with collective bargaining agreements and state law, and that only valid and authorized payments were processed (see Findings 3 through 8);
- 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:
  - Failure to adhere to the requirements of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits, resulting in a liability for excessive leave balances with a value of at least $1,640,165 as of July 31, 2018;
  - Improper payments made for employee separation lump-sum pay, overtime pay, recruitment and retention pay, uniform allowance, and improper holiday credits, costing an estimated net total of $1,599,347 (see Findings 3 through 8); and
- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, and procedures.

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 PPSD was the State's centralized payroll processing center for all payroll-related transactions. PPSD 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 the budget constraints in the late 1980s.

In 2013, the California State Legislature reinstated the payroll audits 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.

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 CAL:

- Maintained adequate and effective internal controls over its payroll process:
- Processed payroll and payroll-related disbursements and leave balances accurately 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.

This audit covered the period from August 1, 2015, through July 31, 2018.

To achieve our audit objectives, we:

- Reviewed state and CAL policies and procedures related to the payroll process to understand CAL's methodology for processing various payroll and payroll-related transactions;
- Interviewed CAL payroll personnel to understand CAL'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 relevant criteria;
- Analyzed and tested transactions recorded in the State's payroll database, and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments; accuracy of leave transactions; adequacy of internal control over the payroll process and systems; and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures; and

- Reviewed salary advances to determine whether CAL 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 CAL:

- Did not maintain adequate and effective internal controls over its payroll process.[1] We found the following deficiencies in internal control over the payroll process that we consider to be material weakness:
  - Lack of adequate segregation of duties and compensating controls over the processing of payroll transactions (see Finding 1);
  - Inappropriate keying access to the State's payroll system (see Finding 2);
  - Lack of sufficient controls over the processing of specific payroll related transactions to ensure that CAL complied with collective bargaining agreements and state law, and that only valid and authorized payments were processed (see Findings 3 through 8);
- 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:
  - Failure to adhere to the requirements of collective bargaining

[1] In planning and performing our audit of compliance, we considered DWR's internal control over compliance with collective bargaining agreements and state laws, regulations, policies, and procedures to determine the auditing procedures that were appropriate under 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 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 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 from those charged with governance.

agreements and state regulations to limit the accumulation of vacation and annual leave credits, resulting in a liability for excessive leave balances with a value of at least $1,640,165 as of July 31, 2018;

  - Improper payments made for employee separation lump-sum pay, overtime pay, recruitment and retention pay, uniform allowance, and improper holiday credits, costing an estimated net total of $1,599,347 (see Findings 3 through 8); and

- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, and procedures.

Follow-up on Prior Audit Findings

There were no prior payroll audits and, consequently, no prior audit findings.

Views of Responsible Officials

We issued a draft audit report on June 18, 2019. Warren L. Montgomery, Warden, responded by letter dated July 18, 2019. This final audit report includes CAL's response.

Restricted Use

This audit report is solely for the information and use of Calipatria State Prison 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

July 31, 2019

Schedule— Summary of Findings August 1, 2015, through July 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	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
2	Inappropriate keying access to the State's payroll system	23	Targeted	Employee	$ -	9	39%	$ -	$ -	$ -
3	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	68	Targeted	Employee	1,640,165	68	100%	1,640,165	N/A	1,640,165
4	Inadequate controls over separation lump-sum pay, resulting in improper and questioned payments									
	Overpayments	28	Statistical	Employee	1,373,850	23	82%	63,396	46,890	110,286
	Underpayments		-- Same selections above --			4	14%	(6,672)	(4,935)	(11,607)
	Overpayments	7	Targeted	Employee	1,092,398	2	29%	7,752	N/A	7,752
	Underpayments		-- Same selections above --			-	-	-	N/A	-
5	Inadequate controls over overtime pay, resulting in improper payments									
	Overpayments	79	Statistical	Payment	85,282	5	6%	576	218,648	219,224
	Underpayments		-- Same selections above --			6	8%	(965)	(366,311)	(367,276)
	Questioned		-- Same selections above --			4	5%	4,262	1,617,840	1,622,102
6	Inadequate controls over recruitment and retention pay, resulting in improper payments	58	Targeted	Employee	120,450	7	12%	10,600	N/A	10,600
7	Inadequate controls over holiday credit transactions, resulting in improper credits	75	Targeted	Holiday credit transaction	40,231	23	31%	6,465	N/A	6,465
8	Inadequate controls over uniform allowance pay, resulting in improper payments									
	Overpayments	3	Targeted	Payment transaction	4,321	3	100%	1,801	N/A	1,801
	Underpayments		-- Same selections above --			-	-	-	N/A	-
	Total				$ 4,356,697			$ 1,727,380	$ 1,512,132	$ 3,239,512

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

Findings and Recommendations

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

CAL lacked segregation of duties within its payroll transactions unit adequate to ensure that only valid and authorized payroll transactions were processed. CAL 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 reviews of the work performed.

Our audit found that CAL 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. CAL failed to demonstrate that it had implemented compensating controls to mitigate the risks associated with such a deficiency. We found no indication that these functions were subjected to regular supervisory review after entries were keyed into the system.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the CAL payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. These control deficiencies, in combination with other deficiencies discussed in Findings 2 through 8, represent a material weakness in internal control over the payroll process 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.

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 CAL:

- 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, CAL 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

- Develop formal procedures for performing and documenting compensating controls.

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

CAL lacked adequate controls to ensure that only appropriate staff had keying access to the State's payroll system. CAL inappropriately did not remove nine employees' keying access to the State's payroll system in a timely manner. If not mitigated, this control deficiency leaves payroll data at risk of misuse, abuse, and unauthorized use.

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

We audited the records of 23 CAL employees who had keying access to the State's payroll system at various times between August 1, 2015, and July 31, 2018. Of the 23 employees, nine had inappropriate keying access to the State's payroll system. CAL did not immediately remove or modify the employees' keying access after their separation from state service, transfer to another agency or unit, or change in classification.

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 CAL:

- Update keying access to the State's payroll system immediately after employees leave CAL, 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*.

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

CAL failed to implement controls to ensure that it adheres 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 at least $1,640,165 as of July 31, 2018.[2] We expect the liability to increase if CAL 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 for reducing leave balances below the applicable limit.

Our examination of CAL's leave accounting records determined that CAL had 1,124 employees with unused vacation or annual leave credits at July 31, 2018. Of those employees, 68 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,299 hours of annual leave, or 1,659 hours beyond the 640-hour limit. Collectively, the 68 employees accumulated 32,971 hours of excess vacation and annual leave, with a value of at least $1,640,165 as of July 31, 2018. This estimated liability does not adjust for

[2]At the time of our audit, we used the most recent and complete vacation and annual leave balances, which were as of July 31, 2018.

salary rate increases and additional leave credits.[3] Accordingly, we expect that the amount needed to pay for this liability will be higher. For example, a CAL employee separated from state service with 2,715 hours in leave credits, including 2,372 hours in annual leave. After adjusting for additional leave credits, the employee was paid for 3,247 hours, or 19% more.

If CAL does not take action to reduce the excessive leave balances, the liability for accrued vacation and annual leave will likely increase because 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. The state agency responsible for paying these leave balances may face a cash flow problem if a significant number of employees with excessive vacation or annual leave balances separate from state service. Normally, state agencies are not budgeted to make these separation 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 CAL:

- 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.

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

CAL lacked adequate controls over the processing of employee separation lump-sum pay. We identified a total dollar amount of known and likely issues of $118,038 in overpayments and $11,607 in underpayments, based on the actual transactions reviewed ("known"), and on the results of statistical sampling ("likely"). If not mitigated, these control deficiencies leave CAL 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.

[3]Most state employees receive pay rate increases every year pursuant to state laws and/or collective bargaining agreements until they reach the top of their pay scale, or promote into a higher-paying position. 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.

Payroll records show that CAL processed payments for separation lump-sum pay, totaling $5,043,017, for 169 employees between August 1, 2015, and July 31, 2018, as follows:

Separation Lump-Sum Pay Group	Unit	Amount
Non-Bargaining Unit 6 (examined seven highest payments)	7	$ 1,092,398
Non-Bargaining Unit 6 (not sampled)	97	1,560,613
Bargaining Unit 6 employees (statistically sampled)	65	2,390,006
Total population	169	$ 5,043,017

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

We examined the separation lump-sum pay for the seven employees with the highest payments, totaling $1,092,398. Of the seven employees, CAL overpaid two of them by an approximate total of $7,752.

Of the payments for separation lump-sum pay, totaling $2,390,006, for 65 Bargaining Unit 6 employees, we randomly selected a statistical sample (as described in the Appendix) of 28 employees who received separation lump-sum pay, totaling $1,373,850.

Our examination of lump-sum payments made to these 28 employees showed that CAL overpaid 23 of them by approximately $63,396 and underpaid four of them by approximately $6,672. The known improper and questioned payments have a net total exception of $56,724. As we used a statistical sampling method to select for examination employees whose payments for separation lump-sum pay, we projected the amounts of likely overpayments and underpayments. These payments resulted in a net total exception of $41,955. Therefore, the known and likely improper payments total a net of approximately $98,679.

The following table summarizes the results of our statistical sampling:

Known improper and questioned payments, net	$ 56,724
Divide by: Sample	1,373,850
Error rate for projection (differences due to rounding)	4.13%
Population that was statistically sampled	2,390,006
Multiply by: Error rate for projection	4.13%
Known and likely improper and questioned payments, net (differences due to rounding)	98,679
Less: Known improper and questioned payments, net	56,724
Likely improper and questioned payments, net	$ 41,955

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

The known overpayments were made because payroll transactions unit staff members miscalculated leave balances paid. The known underpayments were made because payroll transactions unit staff members miscalculated leave balances paid and failed to include the leave credits that employees would have earned when their leave balances for were calculated for lump-sum pay. CAL 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 CAL:

- Establish adequate controls to ensure accurate calculation and payment of separation lump-sum pay;
- Conduct a review of separation lump-sum payments 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 5— Inadequate controls over overtime pay, resulting in improper payments

CAL lacked adequate controls over the processing of overtime pay. We identified a total dollar amount of known and likely issues of $219,224 in overpayments, $367,276 in underpayments, and $1,622,102 in questioned costs based on the actual transactions reviewed ("known"), and on the results of statistical sampling ("likely"). If not mitigated, the control deficiencies leave CAL at risk of additional improper payments for overtime pay.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding overtime pay. Payroll records show that CAL processed 52,691 overtime pay transactions, totaling $32,458,023, between August 1, 2015, and July 31, 2018, as follows:

Overtime Payment Type by Group	Unit	Amount
Total population	52,691	$ 32,458,023

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

Of the 52,691 overtime pay transactions, totaling $32,458,023, we randomly selected a statistical sample (as described in the Appendix) of 79 transactions, totaling $85,282. Of the 79 transactions, CAL overpaid five by $576 and underpaid six by $965. Our audit also showed a lack of supporting documentation for payments totaling $4,262 to four employees. 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 payments made to seven employees. In addition, these employees belonged to bargaining units whose employees are not eligible to receive overtime pay under normal circumstances. As a result, we questioned these payments.

As we used a statistical sampling method to select the employees whose payments for overtime pay were examined, we projected the amount of likely overpayments to be $218,648 and likely underpayments to be $366,311. We could also estimate that there may have been additional missing documentation associated with overtime pay, totaling $1,617,840. 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 $1,474,050, consisting of $219,224 in overpayments, $367,276 in underpayments, and $1,622,102 in questioned payments.

The following table summarizes the results of our statistical sampling:

Known improper and questioned payments, net	$ 3,873
Divide by: Sample	85,282
Error rate for projection (differences due to rounding)	4.54%
Population that was statistically sampled	32,458,023
Multiply by: Error rate for projection	4.54%
Known and likely improper and questioned payments, net (differences due to rounding)	1,474,050
Less: Known improper and questioned payments, net	3,873
Likely improper and questioned payments, net	$ 1,470,177

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

The known underpayment was made because the CAL timekeeping system allowed overtime hours worked to be entered at the straight-time rate instead of the time-and-a-half rate. CAL also lacked adequate supervisory review to ensure accurate processing of overtime pay.

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.

<u>Recommendation</u>

We recommend that CAL:

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

- 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 process only valid and authorized payments that comply with collective bargaining agreements and state laws and policies.

FINDING 6— Inadequate controls over recruitment and retention pay, resulting in improper payments

CAL lacked adequate controls to ensure that payroll transactions unit staff processed only valid and recruitment and retention pay transactions that complied with collective bargaining agreements. We audited 58 recruitment and retention pay transactions totaling $120,450, and identified seven of the payments to be improper, resulting in an overpayment of $10,600.

Pursuant to collective bargaining agreements and CalHR, Pay Differential 135, "Employees who are employed at CAL for 12 consecutive qualifying pay periods shall be eligible for the differential, payable within 30 days following the completion of every 12 consecutive qualifying pay periods." The annual recruitment and retention incentive is $2,400 or $2,600, depending on the employee's bargaining unit and class. Certain classes in each bargaining unit are exempt from receiving the recruitment and retention differential.

Between August 1, 2015, and July 31, 2018, CAL paid recruitment and retention pay to a total of 1,278 employees. We audited 58 payments and found that seven payments had been improperly made to employees who received more than the allowable amount per the bargaining contract. Four exceptions were for improper or inaccurate payment, resulting in $7,800 of overpayments; and three exceptions were for payments made to employees who were not eligible to receive the differential, resulting in $2,800 in overpayments. We found no indication that the recruitment and retention pay transactions were reviewed after being keyed into the system by an individual other than the payroll transactions unit staff member responsible for keying these transactions. These seven improper payments resulted in a total overpayment of $10,600.

<u>Recommendation</u>

We recommend that CAL:

- 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 members process 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 of collective bargaining agreements.

FINDING 7— Inadequate controls over holiday credit transactions, resulting in improper credits

CAL lacked adequate controls over the processing of holiday credit transactions. We identified approximately $6,465 in improper holiday credits. If not mitigated, this control deficiency leaves CAL 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 Bargaining Unit 1 includes similar provisions regarding holiday compensation for represented employees.

We examined 75 holiday credit transactions, with an approximate value of $40,230. These transactions include random selections and transactions that we selected because they involved unusual credits. Of the 75 transactions, 20 involved improper credits, with an estimated value of $5,646; and three, with an approximate value of $819, were questioned due to lack of supporting documentation. The improper holiday credit transactions occurred because the CAL timekeeping system allowed employees to enter improper holiday credit hours. CAL 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 CAL:

- 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 8— Inadequate controls over uniform allowance pay, resulting in improper payments

CAL lacked adequate controls over the processing of payments for uniform allowance. We audited three uniform allowance payments, totaling $4,321, and found that all three of the payments were improper, resulting in an overpayment of $1,801.

Pursuant to the collective bargaining agreement 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, to be paid annually. If the employee leaves the classification entitled to the uniform allowance, the employee receives a prorated share of the annual uniform allowance.

Payroll records showed that CAL processed 884 transactions, totaling $1,783,891 for uniform allowance between August 1, 2015, and July 1, 2018. We examined three transactions, with a value of $4,321, and found that all were overpaid, by a total of $1,801, because the employees received more than the amount allowed by the collective bargaining agreement. CAL lacked adequate supervisory review to ensure accurate processing of uniform allowance payments.

Recommendation

We recommend that CAL:

- Conduct a review of payments for uniform allowance made during the past three years to ensure that the payments complied with collective bargaining agreements; 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 payments for uniform allowance from recurring, CAL:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements; and

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

Appendix— Audit Sampling Methodology August 1, 2015, through July 31, 2018

We used attributes sampling for tests of compliance. The following table outlines our audit sampling application for audit 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	65	$ 2,390,006	Employee	Computer-generated simple random	90%	10%	1 (1%)	28	Yes	4
Overtime pay	Compliance	52,691	$ 32,458,023	Payment transactions	Computer-generated simple random	90%	10%	1 (1%)	79	Yes	5

[1] 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— Calipatria State Prison's Response to Draft Audit Report

STATE OF CALIFORNIA — DEPARTMENT OF CORRECTIONS AND REHABILITATION GAVIN NEWSOM, GOVERNOR

DIVISION OF ADULT INSTITUTIONS
CALIPATRIA STATE PRISON
PO Box 5001
Calipatria CA 92233

July 18, 2019

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
SCO, Division of Audits
P.O. Box 942850
Sacramento, CA 94250

Dear Mr. Finlayson:

This letter is in response to the draft report issued by the State Controller's Office (SCO) on June 18, 2019, regarding the Payroll Process Review of Calipatria State Prison (CAL). CAL takes seriously its responsibility to ensure that effective payroll processes are in place, and is committed to continually improving these processes.

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

Finding 1 – Inadequate segregation of duties and lack of compensating controls over the processing of payroll transactions.

Response: The Personnel Specialist duties and responsibilities consist of processing various personnel/payroll transactions, including data entry, reconciliation, and processing adjustments and corrections. Over the years, these duties have increased significantly for the Personnel Specialist and Personnel Supervisors. CAL continues the effort to segregate duties while also balancing the ongoing challenge of shifting workloads resulting from staff turnover and vacancies. Since the review, with the implementation of the Business Information System (BIS) and Telestaff programs, controls are in place ensuring that timekeeper duties do not overlap with the personnel transactions staff who key into the payroll system. In addition, CAL Personnel Supervisors and the Classification and Pay Analyst (CPA) perform periodic reviews and reconcile actual payments keyed into the payroll system.

Finding 2 – Inappropriate keying access to the State's payroll system.

Response: Since the review, CAL has implemented procedures to timely remove SCO users who are transferring, separating, or taking a leave of absence. Institutions are now allowed to email the Decentralized Security Administrator the notification of an employee's separation followed by submission of the PSD-125 form and any other required documents. In addition, the Personnel Supervisor periodically reviews access to the system to verify that CAL is in compliance with the Decentralized Security Program.

Finding 3 – Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances.

Response: CAL has been exploring ways to reduce the excessive leave balances, which includes the Department's Leave Reduction Plan. All employees in excess of the Memorandum of Understanding or California Code of Regulations leave cap, as well as employees who anticipate reaching their leave cap by December 31, 2019, shall submit to their supervisor a Leave Reduction Plan (CalHR 138) form by July 5, 2019, to reduce or keep their leave balances below the cap. This new program will be reviewed periodically to ensure compliance.

Finding 4 – Inadequate controls over separation lump sum pay, resulting in improper and questionable payments.

Response: In October 2018, all Personnel Specialists and Personnel Supervisors participated in a lump sum training. Since the training, significant improvements have been made. Furthermore, CAL has implemented oversight controls, which require review and signature approval of lump sum calculations by the Personnel Supervisor I and Personnel Supervisor II.

Finding 5 – Inadequate controls over overtime pay, resulting in improper payments.

Response: The BIS is responsible for the calculation and downloading of overtime electronically to the SCO payroll system. CAL will implement oversight controls to prevent improper overtime payments. The Personnel Supervisors will analyze and review a selection of timesheets to ensure compliance and continue to provide training to transactions staff.

Finding 6 – Inadequate controls over recruitment and retention pay, resulting in improper payments.

Response: The accounts receivable process has been initiated for any overpayments identified. CAL will implement oversight controls to prevent improper recruitment and retention payments, and the CPA will utilize the Management Information Retrieval System (MIRS) to perform regular audits of payments. Personnel Supervisors will continue to provide training to transactions staff.

Finding 7 – Inadequate controls over holiday credit transactions, resulting in improper credits.

Response: Personnel Supervisors on a monthly basis review holiday credit posted in the California Leave Accounting System using the Leave Activity and Balances Report to compare to the timesheet. Discrepancies will be addressed with the Personnel Specialist. Additionally, the Personnel Supervisors will audit timesheets on a quarterly basis by utilizing the Timesheet Monthly Review Tool.

Finding 8 – Inadequate controls over uniform allowance pay, resulting in improper payments.

Response: CAL will implement oversight controls to prevent improper uniform allowance payments. The Personnel Supervisors will provide an annual training and review uniform cards to prevent overpayments. The CPA will utilize MIRS reports to identify improper payments.

Should you have any questions, please contact Tiffany Cardenaz, Staff Services Manager I, at 760-348-6004, or at Tiffany.Cardenaz@cdcr.ca.gov.

Sincerely,

W. L. MONTGOMERY
Warden
Calipatria State Prison

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