

CALIFORNIA SUBSTANCE ABUSE TREATMENT FACILITY AND STATE PRISON

Audit Report

PAYROLL AUDIT

February 1, 2015, through January 31, 2018



BETTY T. YEE
California State Controller

July 2019



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California State Controller

July 31, 2019

Stuart Sherman, Warden
California Substance Abuse Treatment Facility and State Prison
P. O. Box 7100
Corcoran, CA 93212

Dear Mr. Sherman:

The State Controller's Office audited California Substance Abuse Treatment Facility and State Prison's (CSATF-CSP) payroll process and transactions for the period of February 1, 2015, through January 31, 2018.

Our audit found material weaknesses in internal control over the CSATF-CSP payroll process. These weaknesses contributed to CSATF-CSP employees' excessive vacation and annual leave balances, improper and questioned payments and leave accruals, and long-outstanding salary advances, costing the State an estimated net total of \$2,689,286.

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: Theresa Cisneros, Chief Deputy Warden

California Substance Abuse Treatment Facility and State Prison

Jason Collins, Associate Warden of Business Services

California Substance Abuse Treatment Facility and State Prison

Laura Sherwood, Correctional Business Manager

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Substance Abuse Treatment Facility and State Prison's (CSATF-CSP) payroll process and transactions for the period of February 1, 2015, through January 31, 2018. CSATF-CSP management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures. We completed our audit fieldwork on May 22, 2019.

Our audit determined that CSATF-CSP:

- Did not maintain adequate and effective internal controls over its payroll process. We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
 - 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 CSATF-CSP complied with collective bargaining agreements and state laws, and that only valid and authorized payments were processed (see Findings 3, 4, 5, 7, and 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 liability for excessive leave balances with a value of at least \$2,320,157 as of January 31, 2018 (see Finding 3);
 - Improper payments made for employee separation lump-sum pay, overtime pay, and uniform allowance and improper holiday credits, costing an estimated net total of \$368,410 (see Findings 4, 5, 7, and 8); and
- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures (see Finding 6).

Background

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

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

Audit Authority

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

Objectives, Scope, and Methodology

We performed this audit to determine whether CSATF-CSP:

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

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

To achieve our audit objectives, we:

- Reviewed State and CSATF-CSP policies and procedures related to the payroll process to understand CSATF-CSP's methodology for processing various payroll and payroll-related transactions;
- Interviewed the CSATF-CSP payroll personnel to understand CSATF-CSP'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, judgmental selection, and targeted selection based on risk factors and other relevant criteria;
- Analyzed and tested the selected transactions, and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, adequacy and effectiveness of internal control over the payroll process, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures; and
- Reviewed salary advances to determine whether CSATF-CSP 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 CSATF-CSP:

- Did not maintain adequate and effective internal controls over its payroll process¹. We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
 - 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);

¹ In planning and performing our audit of compliance, we considered CSATF-CSP'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.

- Lack of sufficient controls over the processing of specific payroll-related transactions to ensure that CSATF-CSP complied with collective bargaining agreements and state laws, and that only valid and authorized payments were processed (see Findings 3, 4, 5, 7, and 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 liability for excessive leave balances with a value of at least \$2,320,157 as of January 31, 2018 (see Finding 3);
 - Improper payments made for employee separation lump-sum pay, overtime pay, and uniform allowance; and improper holiday credits, costing an estimated net total of \$368,410 (see Findings 4, 5, 7, and 8); and
- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures (see Finding 6).

Follow-up on Prior Audit Finding

The California Department of Corrections and Rehabilitation Office of Audits and Court Compliance issued a report on January 6, 2016, for its Business Services Review of CSATF-CSP from November 6, 2015, through November 19, 2015. The Business Services Review report included a finding regarding uncollected salary advances. Based on the work performed during our current audit, we noted a similar finding (see Finding 6).

Views of Responsible Officials

We issued a draft audit report on June 17, 2019. Stuart Sherman, Warden, responded by letter dated June 27, 2019 (Attachment), acknowledging the findings and indicating that CSATF-CSP has taken steps to correct the deficiencies noted. We will follow up during the next payroll audit to verify that these corrective actions were adequate and appropriate. CSATF-CSP also provided additional information regarding Finding 4; based on this information, we modified the finding.

Restricted Use

This audit report is solely for the information and use of CSATF-CSP 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 February 1, 2015, through January 31, 2018

Finding Number	Issues	Number of Selections Audited	Method of Selection	Selection Unit	Dollar Amount of Selections Audited	Number of Selections with Issues	Issues as a Percentage of Selections Audited *	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	27	Targeted	Employee	\$ -	10	37%	\$ -	\$ -	\$ -
3	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	127	Targeted	Employee	2,320,157	127	100%	2,320,157	N/A	2,320,157
4	Inadequate controls over separation lump-sum pay, resulting in improper payments									
	Overpayments (section 7[k] employees)	101	Statistical	Employee	3,086,607	33	33%	39,467	7,386	46,853
	Underpayments (section 7[k] employees)		-- Same selections above --			15	15%	(5,495)	(1,029)	(6,524)
5	Inadequate controls over overtime pay, resulting in improper payments									
	Overpayments	105	Statistical	Payment transaction	157,063	7	7%	1,518	419,949	421,467
	Underpayments		--Same selections above--			14	13%	(390)	(107,848)	(108,238)
	Overpayments	44	Targeted	Payment transaction	141,251	5	11%	2,917	N/A	2,917
	Underpayments		-- Same selections above --			1	2%	(326)	N/A	(326)
6	Inadequate controls over salary advances, resulting in failure to recover outstanding amounts	14	Targeted	Salary advance transaction	8,983	5	36%	719	N/A	719
7	Inadequate controls over holiday credit transactions, resulting in improper credits	34	Targeted	Holiday credit transaction	13,022	6	18%	1,664	N/A	1,664
8	Inadequate controls over uniform allowance, resulting in overpayments	37	Judgmental	Payment transaction	20,295	22	59%	10,597	N/A	10,597
Total					<u>\$ 5,747,378</u>			<u>\$ 2,370,828</u>	<u>\$ 318,458</u>	<u>\$ 2,689,286</u>

* 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

CSATF-CSP lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. CSATF-CSP 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 CSATF-CSP 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. CSATF-CSP 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 periodic supervisory review.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the CSATF-CSP 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 CSATF-CSP:

- 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, CSATF-CSP 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

CSATF-CSP lacked adequate controls to ensure that only appropriate staff had keying access to the State’s payroll system. CSATF-CSP inappropriately allowed 10 employees keying access to the State’s payroll system. 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 examined the records of 27 CSATF-CSP employees who had keying access to the State’s payroll system at various times between February 2015 and January 2018. Of the 27 employees, 10 had inappropriate keying access to the State’s payroll system. Specifically, CSATF-CSP did not immediately remove or modify keying access for nine employees after the employees’ separation from state service, transfer to another agency, or change in classification. For example, a Personnel Specialist transferred to another state agency on May 1, 2016; CSATF-CSP did not request to remove the employee’s access until July 21, 2016, 81 days later. In addition, one of the 10 employees had keying access to the system while appointed to the Associate Government Program Analyst classification, which is ineligible to have keying access to the payroll system without the required justification; CSATF-CSP could not provide the justification letter for this employee.

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. . . .

A request to grant access to an individual in a classification other than in the Personnel Specialist/Payroll Technician series to access PIMS, HIST, KEYM, PIP, LAS, MPC and/or ACAS requires a written justification from the Authorizing Manager. The justification must describe the individual's specific job duties requiring the need to access system information (i.e., PIMS = Employment History, HIST=Payroll History, LAS=Leave Accounting System, etc.) as well as level of access to that application, in order to perform their regular daily duties. . . .

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 CSATF-CSP:

- Update keying access to the State's payroll system immediately after employees leave CSATF-CSP, 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

CSATF-CSP 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 \$2,320,157 as of January 31, 2018. We expect the liability to increase if CSATF-CSP 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 CSATF-CSP's leave accounting records determined that CSATF-CSP had 1,732 employees with unused vacation or annual leave credits at January 31, 2018. Of those employees, 127 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,998 hours in annual leave, or 2,358 hours beyond the 640-hour limit. Collectively, the 127 employees accumulated 48,301 hours of excess vacation and annual leave, with a value of at least \$2,320,157 as of January 31, 2018. This estimated liability does not adjust for salary rate increases and additional leave credits.² Accordingly, we expect that the amount needed to pay for this liability will be higher. For example, a CSATF-CSP employee separated from state service with 3,150 hours in leave credits, including 2,285 hours in annual leave. After adjusting for additional leave credits, the employee was paid for 3,730 hours, or 18% more.

We judgmentally selected 20 of the 127 employees for examination to determine whether CSATF-CSP complied with collective bargaining agreements and state regulations. When we discussed the records of these employees with the personnel office staff, they indicated that CSATF-CSP had no plans in place during the audit period to reduce leave balances below the limit. CSATF-CSP also could not demonstrate that it had complied with collective bargaining agreements and state regulations when allowing these employees to maintain excess vacation or annual leave balances.

If CSATF-CSP 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 CSATF-CSP:

- 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

² 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.

- 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
payments**

CSATF-CSP lacked adequate controls over the processing of employee separation lump-sum pay. We identified \$46,853 in overpayments and \$6,524 in underpayments for separation lump-sum pay, consisting of \$39,467 in overpayments and \$5,496 in underpayments based on actual transactions audited (“known”); and \$7,386 in overpayments and \$1,028 in underpayments based on the results of statistical sampling (“likely”). If not mitigated, these control deficiencies leave CSATF-CSP 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 CSATF-CSP processed payments for separation lump-sum pay, totaling \$7,091,434, for 314 employees between February 2015 and January 2018, as follows:

Separation Lump-Sum Pay Group	Unit	Amount
Employees under Section 7(k) of the Fair Labor Standards Act (statistically sampled)	121	\$ 3,664,226
Employees under Section 7(k) of the Fair Labor Standards Act (examined 11 highest payments)	193	3,427,208
Total population	314	\$ 7,091,434

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

Of the payments for separation lump-sum pay, totaling \$3,664,226, for 121 employees who were covered by the provisions of Section 7(k) of the Fair Labor Standards Act, we randomly selected a statistical sample (as described in the Appendix) of 101 employees who received separation lump-sum pay, totaling \$3,086,607.

Our examination of lump-sum payments made to these 101 employees showed that CSATF-CSP overpaid 33 of them by approximately \$39,467 and underpaid 15 of them by approximately \$5,495. These payments resulted in net total improper payments of \$33,972. 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 \$7,386 and likely underpayments to be \$1,029. These payments resulted in a net total exception of \$6,357. Therefore, the known and likely improper payments totaled a net of approximately \$40,327, consisting of \$46,853 in overpayments and \$6,524 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	\$ 33,972
Divide by: Sample	3,086,607
Error rate for projection (differences due to rounding)	1.10%
Population that was statistically sampled	3,664,226
Multiply by: Error rate for projection	1.10%
Known and likely improper payments, net (differences due to rounding)	40,329
Less: Known improper payments, net	33,972
Likely improper payments, net	\$ 6,357

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

Of the remaining payments for separation lump-sum pay, totaling \$3,427,208, for 193 employees who were not covered by the provisions of Section 7(k) of the Fair Labor Standards Act, we selected 11 employees who were granted the highest payments, totaling \$1,744,901. Our examination of the payments for separation lump-sum pay for these employees found no exceptions.

The known improper payments were made because payroll transactions unit staff members miscalculated leave balances paid, failed to include the leave credits that employees would have been credited with when their leave balances were calculated for lump-sum pay, and granted holiday credits to ineligible employees. CSATF-CSP 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 CSATF-CSP:

- 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

CSATF-CSP lacked adequate controls over the processing of overtime pay. We identified \$424,384 in overpayments and \$108,564 in underpayments for overtime pay, consisting of \$4,435 in overpayments and \$716 in underpayments based on actual transactions examined (“known”); and \$419,949 in overpayments and \$107,848 in underpayments based on the results of statistical sampling (“likely”). If not mitigated, these control deficiencies leave CSATF-CSP at risk of additional improper payments for overtime.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding overtime pay. Payroll records show that CSATF-CSP processed 29,458 overtime pay transactions, totaling \$44,065,657, between February 2015 and January 2018, as follows:

Overtime Payment Type by Group	Unit	Amount
Work Week Group 2 – Paid for less than 250 hours (statistically sampled)	29,241	\$ 43,625,098
Work Week Group 2 – Paid for at least 250 hours (items examined 100%)	10	121,612
Work Week Group E (items examined 100%)	34	19,639
Work Week Group SE (items not examined)	173	299,308
Total population	29,458	\$ 44,065,657

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

Of the 29,241 overtime pay transactions, totaling \$43,625,098, for Work Week Group (WWG) 2 employees who were paid for less than 250 hours of overtime per transaction, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$157,063. Of the 105 transactions, CSATF-CSP overpaid seven by approximately \$1,518 and underpaid 14 by approximately \$390. These payments resulted in total improper payments of \$1,128.

As we used a statistical sampling method to select the overtime pay transactions examined, we projected the amount of likely overpayments to be \$419,949 and likely underpayments to be \$107,848. These payments resulted in total improper payments of \$312,101. Therefore, the known and likely improper payments totaled a net of approximately \$313,229, consisting of \$421,467 in overpayments and \$108,238 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	\$ 1,128
Divide by: Sample	157,063
Error rate for projection (differences due to rounding)	0.72%
Population that was statistically sampled	43,625,098
Multiply by: Error rate for projection	0.72%
Known and likely improper payments, net (differences due to rounding)	313,229
Less: Known improper payments, net	1,128
Likely improper payments, net	\$ 312,101

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

We also examined all 10 overtime pay transactions, totaling \$121,612, for WWG 2 employees who were paid for at least 250 hours of overtime per transaction. Of the 10 transactions, CSATF-CSP overpaid two by approximately \$739.

Furthermore, we examined all 34 overtime pay transactions, totaling \$19,639, for WWG E employees who are not eligible to receive overtime pay under normal circumstances. Of the 34 transactions, CSATF-CSP improperly paid three, totaling \$2,178, to an employee who was not eligible to receive overtime pay; and underpaid one transaction by \$326.

The California Department of Human Resources' *California State Civil Service Pay Scales*, section 10 states, in part:

Work Week Group "E" includes classes that are exempted from coverage under the FAIR LABOR STANDARDS ACT because of the "white-collar" (administrative, executive, professional) exemptions. To be eligible for this exemption a position must meet both the "salary basis" and the "duties" test.

Exempt (WWG E) employees are paid on a "salaried" basis and the regular rate of pay is full compensation for all hours worked to perform assigned duties. However, these employees shall receive up to 8 hours holiday credit when authorized to work on a holiday. Work Week Group E employees shall not receive any form of additional compensation, whether formal or informal, unless otherwise provided by the provisions of this work week group. . . .

The known improper payments were made because the payroll transactions unit staff members miscalculated overtime hours worked; paid for overtime hours worked at the straight-time rate instead of the time-and-a-half rate, or vice-versa; failed to verify that the employee was eligible for overtime pay; or incorrectly entered the overtime hours worked into the payroll system. We also noted that the CSATF-CSP timekeeping system improperly rounded overtime hours worked. Furthermore, CSATF-CSP 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.

Recommendation

We recommend that CSATF-CSP:

- 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, CSATF-CSP:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state laws and policies;
- Conduct a review of the timekeeping system and ensure that it is not improperly rounding overtime hours worked; 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
salary advances,
resulting in failure
to recover
outstanding
amounts**

CSATF-CSP lacked adequate controls over salary advances to ensure that advances were recovered in accordance with state law and policies. Five salary advances, totaling \$719, remained outstanding as of January 31, 2018, due to CSATF-CSP'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 CSATF-CSP at risk of further failures to collect salary advances if not mitigated.

At January 31, 2018, CSATF-CSP's accounting records showed 45 outstanding salary advances totaling \$74,405, including 14 balances, totaling \$8,983, that had been outstanding for more than 120 days. Generally, the prospect of collection diminishes as an account ages. When an agency does not initiate collection within three years from the date of overpayment, 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 CSATF-CSP to collect salary advances in a timely manner and maintain proper records of collection efforts.

We examined the 14 salary advances that had been outstanding for more than 120 days. Based on this examination, we noted that CSATF-CSP did not comply with the State's collection policies and procedures for five of them, totaling \$719. CSATF-CSP did not send collection notices promptly, or did not send the notices at all. For example, a salary advance was issued to a separating employee in September 2016; CSATF-CSP sent the first collection letter in March 2017, five months later. In addition, CSATF-CSP could not provide supporting documentation for two of the five salary advances. SAM section 8776 requires state agencies to maintain proper records of their collection efforts, if any.

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 CSATF-CSP:

- Ensure that it recovers salary advances in a timely manner pursuant to GC section 19838 and SAM sections 8776 and 8776.7; and
- Maintain documentation of its collection efforts, if any.

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

CSATF-CSP lacked adequate controls over the processing of holiday credit transactions. We identified approximately \$1,664 in improper holiday credits. If not mitigated, this control deficiency leaves CSATF-CSP 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. Collective bargaining agreements between the State and Bargaining Units 3, 4, 12, 15, 18, 19, and 20 include similar provisions regarding holiday compensation for represented employees.

Leave accounting records showed that CSATF-CSP processed 9,394 accrual transactions of holiday credit. We examined 34 of these transactions, with an estimated value of \$13,022, because they involved unusual credits. Of the 34 transactions, six involved improper credits, with an estimated value of \$1,664.

The improper holiday credit transactions were made because the payroll transactions unit staff members granted holiday credits to employees during pay periods with no holidays, and improperly calculated holiday credit hours. CSATF-CSP 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 CSATF-CSP:

- 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's 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, resulting in overpayments

CSATF-CSP lacked adequate controls over the processing of payments for uniform allowances. We identified \$10,597 in overpayments for uniform allowance. If not mitigated, these control deficiencies leave CSATF-CSP at risk of additional improper payments.

Pursuant to the collective bargaining agreement between the State and Bargaining Unit 6, certain employees required to wear a uniform and uniform accessories receive a maximum uniform allowance of \$950 per year, to be paid annually. If an employee leaves the classification entitled to the uniform allowance, the employee receives a prorated share of the annual uniform allowance.

Payroll records showed that CSATF-CSP processed 3,283 transactions, totaling \$2,357,550, for uniform allowance between February 2015 and January 2018. We judgmentally selected and examined 37 transactions, and found that CSATF-CSP overpaid 22 of them, totaling \$10,597. Specifically, for five transactions, the employees received the uniform allowance twice in one year; and for 17 transactions, the employees received more than the amount allowed by the collective bargaining agreement. CSATF-CSP lacked adequate supervisory review to ensure accurate processing of uniform allowance payments.

Recommendation

We recommend that CSATF-CSP:

- 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, CSATF-CSP:

- 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 February 1, 2015, through January 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) ^a	Sample Size	Results Projected to Intended Population	Finding Number
Separation lump-sum pay (Section 7[k] employees)	Compliance	121	\$3,664,226	Employee	Computer-generated simple random	90%	5%	2 (1.75%)	101 ^b	Yes	4
Overtime pay (Work Week Group 2 – Paid for less than 250 hours)	Compliance	29,241	\$43,625,098	Payment transactions	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	5

^a 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.

^b For population of less than 250 items, we used the sample size suggested in the Test of Compliance – Sampling Plan and Evaluation found in *Practitioner's Publishing Company's Guide to Single Audits* (July 2017 edition).

**Attachment—
California Substance Abuse Treatment Facility and State
Prison's Response to Draft Audit Report**

DIVISION OF ADULT INSTITUTIONS

CALIFORNIA SUBSTANCE ABUSE TREATMENT FACILITY AND
STATE PRISON AT CORCORAN
900 Quebec Avenue
PO Box 7100
Corcoran, CA 93212



June 27, 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 17, 2019, regarding the Payroll Process Review of the California Substance Abuse Treatment Facility and State Prison, Corcoran (SATF). SATF takes seriously its responsibility to ensure that effective payroll processes are in place, and is committed to continually improving these processes. SATF places importance on the quality work of the Personnel Office and is continually striving for improvement.

SATF 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 process of payroll transactions.

Response: Personnel Specialist duties and responsibilities consist of performing all payroll functions such as entering transactions, reviewing transactions, and processing adjustments and corrections. It is not feasible to segregate the duties, since each Personnel Specialist is assigned a specific roster of employees. SATF has implemented periodic review of various transactions to be completed by the Personnel Supervisor as a compensating control.

Finding 2 – Inappropriate keying access to the state payroll system.

Response: SCO identified one (1) employee with keying access not included in the Personnel Specialist classification. This position was previously classified as a Senior Personnel Specialist, which was authorized for keying access. When the position was reclassified out of the Personnel Specialist classification series, access was not removed to align with the new classification. Keying access has since been removed and the risks mitigated. The additional nine (9) individuals did not have access immediately removed after their separation, transfer, or change in classification. During the course of the audit, SATF was informed that immediate removal should not exceed one business day. SATF has implemented the process of emailing the Decentralized Security Administrator any changes to ensure compliance with the one day expectation. The Personnel Supervisor II conducts periodic reviews to ensure compliance.

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

Response: Furloughs and the Personal Leave Program have contributed to the accumulation of annual leave and vacation credits. Staffing shortages coupled with an increase in workload do not allow for the approval of extended amounts of time off. SATF has implemented a procedure for management to review semiannual reports and work with its staff to develop a written leave balance reduction plan. In accordance with the Department memorandum dated June 4, 2019, SATF will comply by having managers and supervisors ensure that all employees exceeding or nearing leave caps complete and submit the CalHR 138 form by July 5, 2019, for approval as operationally feasible.

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

Response: Personnel Specialists are responsible for computing lump sum calculations for separated employees in their designated reporting units. The Personnel Supervisor I is responsible for reviewing all calculations to ensure accuracy. SATF will implement a second review by the Personnel Supervisor I upon issuance of the lump sum payment to ensure accuracy. In addition, all transactions staff attended 7K Lump Sum training on November 14, 2018.

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

Response: Twenty-six percent of the errors discovered during the audit were identified as Business Information System (BIS) rounding errors. The remaining errors were a result of various keying mistakes and miscalculations. During the audit period, the SATF Personnel Office experienced challenges with numerous vacancies, as well as a high rate of staff turnovers, which contributed to the findings. SATF continues to focus on training, which is provided on a continual basis in an effort to reduce errors.

Finding 6 – Inadequate controls over salary advances, resulting in failure to recover outstanding amounts.

Response: SATF makes a concerted effort to clear all salary advances in a timely manner. All salary advances are tracked in the BIS system and overseen by the Salary Advance/Aging Report (SA/AR) Unit, as well as the Accounting Services Branch. The SA/AR Unit distributes a monthly report that is reviewed and monitored by SATF on a monthly basis. Regardless of staffing shortages and associated challenges, SATF management continues to improve the process for timely recovery of outstanding salary advances.

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

Response: The 18 percent error finding for holiday credits was a result of keying errors. SATF has developed a monthly leave audit to be conducted by Personnel Supervisor Is, which includes auditing of all leave usage and/or credits. In addition, continual training is provided to staff to ensure accuracy.

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

Response: A majority of the improper payments for uniform allowance consisted of payments made to members of the Crisis Response Team (CRT). On December 7, 2016, SATF received direction from Headquarters, to immediately cease the issuance of any supplemental uniform allowance payments for CRT Team Members. Personnel Specialists have received training regarding the proper issuance of uniform allowance in accordance with the bargaining agreement. In addition, the remaining clerical errors were made by new staff who have since been provided training.

Should you have any questions, please contact Gladys Miranda, Staff Services Manager I, at (559) 992-7165, or at Gladys.Miranda@cdcr.ca.gov.

Sincerely,


S. SHERMAN

Warden

California Substance Abuse Treatment Facility and State Prison, Corcoran

**State Controller's Office
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<http://www.sco.ca.gov>