

**CALIFORNIA DEPARTMENT OF
EDUCATION – CALIFORNIA SCHOOL
FOR THE DEAF, FREMONT;
CALIFORNIA SCHOOL FOR THE
BLIND; AND THE DIAGNOSTIC
CENTERS (NORTH, CENTRAL, AND
SOUTH)**

Review Report

PAYROLL PROCESS REVIEW

March 1, 2015 through February 28, 2018



BETTY T. YEE
California State Controller

July 2019



BETTY T. YEE
California State Controller

July 31, 2019

Tony Thurmond, State Superintendent of Public Instruction
Department of Education
1430 N Street
Sacramento, CA 95814

Dear Mr. Thurmond:

The State Controller's Office has reviewed the California Department of Education (CDE) – California School for the Deaf, Fremont (CSDF); California School for the Blind (CSB); and the Diagnostic Centers (DC) (North, Central, and South) payroll process for the period of March 1, 2015, through February 28, 2018. CDE – CSDF, CSB, and DC management is responsible for maintaining a system of internal control over payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our review found material weaknesses in internal control over the CDE – CSDF, CSB, and DC payroll process. These weaknesses contributed to CDE – CSDF, CSB, and DC employees' excessive vacation and annual leave balances; improper and questioned payments for separation lump-sum pay, regular pay, overtime pay, holiday credit, settlement pay, and leave buy-back; and long-outstanding unrecovered salary advances, costing the State an estimated net total of \$27,869,127.

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: Nick Schweizer, Deputy Superintendent of Public Instruction
California Department of Education
Valarie Bliss, Director
Personnel Services Division
California Department of Education
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Review Report

Summary

The State Controller’s Office (SCO) reviewed the California Department of Education (CDE) – California School for the Deaf, Fremont (CSDF); California School for the Blind (CSB); and the Diagnostic Centers (DC) (North, Central, and South) payroll process for the period of March 1, 2015, through February 28, 2018. CDE – CSDF, CSB, and DC management is responsible for maintaining a system of internal control over payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in internal control over the CDE – CSDF, CSB, and DC payroll process that leave CDE – CSDF, CSB, and DC at risk of additional improper payments if not mitigated. We found that CDE – CSDF, CSB, and DC has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.

Specifically, CDE – CSDF, CSB, and DC lacked adequate segregation of duties and compensating controls over their processing of payroll transactions. In addition, CDE – CSDF, CSB, and DC inappropriately granted one employee keying access to the State’s payroll system, which leaves payroll data at risk of misuse, abuse, and unauthorized use. These control deficiencies have a pervasive effect on the CDE – CSDF, CSB, and DC payroll process, and impair the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

We also found that CDE – CSDF, CSB, and DC lacked sufficient controls over the processing of specific payroll-related transactions to ensure that it complied with collective bargaining agreements and state laws, and that only valid and authorized payments were processed. As quantified in the Schedule, these control deficiencies contributed to CDE – CSDF, CSB, and DC employees’ excessive vacation and annual leave balances; improper and questioned payments for separation lump-sum pay, regular pay, overtime pay, holiday credit, settlement pay, and leave buy-back; and long-outstanding unrecovered salary advances, costing the State an estimated net total of \$27,869,127.

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 these payroll reviews to gain assurance that state agencies and departments maintain adequate internal control over payroll, provide proper oversight over their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

Review Authority

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

Objectives, Scope, and Methodology

We performed this review to determine whether CDE – CSDF, CSB, and DC:

- Processed payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures;
- Established adequate internal control over payroll to meet the following control objectives:
 - Payroll and payroll-related transactions are properly approved and certified by authorized personnel;
 - Only valid and authorized payroll and payroll-related transactions are processed;
 - Payroll and payroll-related transactions are accurate and properly recorded;
 - Payroll systems, records, and files are adequately safeguarded;
 - State laws, regulations, policies, and procedures are complied with regarding payroll and payroll-related transactions;
- Complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures;
- Maintained accurate records of leave balances; and
- Administered and recorded salary advances properly and in accordance with state laws, regulations, policies, and procedures.

We reviewed the CDE – CSDF, CSB, and DC payroll process and transactions for the period of March 1, 2015, through February 28, 2018. For leave balances, we used the most recent and complete balances, which were as of February 28, 2018, at the time of our review.

To achieve our review objectives, we:

- Reviewed state and CDE – CSDF, CSB, and DC policies and procedures related to the payroll process to understand CDE – CSDF, CSB, and DC’s methodology for processing various payroll and payroll-related transactions;
- Interviewed CDE – CSDF, CSB, and DC payroll personnel to understand CDE – CSDF, CSB, and DC’s methodology for processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to payroll transaction processing, and gain an understanding of existing internal control over the payroll process and systems;
- Selected transactions recorded in the State’s payroll database using statistical sampling, as outlined in the Appendix, and targeted selection based on risk factors and other criteria for review;
- Analyzed and tested transactions recorded in the State’s payroll database, and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments; accuracy of leave transactions; propriety of review and approval of transactions; adequacy of internal control over the payroll process and systems; and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures (errors found in statistically-determined samples were projected to the intended population); and
- Reviewed salary advances to determine whether CDE – CSDF, CSB, and DC administered and recorded them in accordance with state laws, regulations, policies, and procedures.

Conclusion

Based on the results of our review, we found that CDE – CSDF, CSB, and DC:

- Did not process payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures (see Findings 3 through 10);
- Lacked adequate internal control over payroll and payroll-related transactions (see Findings 1 through 10);
- Did not maintain accurate records of leave balances (see Findings 4, 8, and 10); and
- Did not administer salary advances in accordance with state laws, regulations, policies, and procedures (see Finding 7).

As quantified in the Schedule and described in the Findings and Recommendations section of this review report, these material weaknesses¹ in internal control over the payroll process contributed to CDE – CSDF, CSB, and DC employees’ excessive vacation and annual leave balances, improper and questioned payments, and long-outstanding unrecovered salary advances, costing the State an estimated net total of \$27,869,127.

Views of Responsible Officials

We issued a draft review report on June 28, 2019. Lupita Cortez Alcalá, Chief Deputy Superintendent of Public Instruction of the California Department of Education, responded by letter dated July 26, 2019 (Attachment) on behalf of CSDF, CSB and DC. CSDF, CSB, and DC stated that they partially concur with Finding 9, and fully concur with the remaining recommendations of the review report. Our response to Finding 9 is included in the Findings and Recommendations section.

Restricted Use

This report is solely for the information and use of CDE – CSDF, CSB, and DC, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record, 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

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

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention from those charged with governance.

Schedule 1— Summary of Findings California School for the Deaf, Fremont March 1, 2015, through February 28, 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
3	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	6	Targeted	Employee	\$ 8,853	6	100%	\$ 8,853	N/A	\$ 8,853
4	Inadequate controls over separation lump-sum pay, resulting in improper and questioned payments	54	Targeted	Employee	425,483					
	-Underpayments			-- Same selections as above --		6	11%	(5,606)	N/A	(5,606)
	-Questioned payments			-- Same selections as above --		36	67%	288,936	N/A	288,936
5	Inadequate controls over regular pay, resulting in improper and questioned payments	133	Statistical	Employee	455,642					
	-Questioned payments			-- Same selections as above --		44	33%	162,068	\$ 21,528,341	21,690,409
6	Inadequate controls over overtime pay, resulting in improper payments	120	Statistical	Employee	78,715					
	-Overpayments			-- Same selections as above --		38	32%	9,116	38,185	47,301
	-Underpayments			-- Same selections as above --		12	10%	(1,359)	(5,693)	(7,052)
	-Questioned payments			-- Same selections as above --		51	43%	34,357	143,922	178,279
	-Questioned payments	15	Targeted	Employee	57,880	15	100%	57,880	N/A	57,880
7	Inadequate controls over salary advances, resulting in failure to recover outstanding amounts	1	Targeted	Salary advance transaction	38,147	1	100%	38,147	N/A	38,147
8	Inadequate controls over holiday credit transactions, resulting in improper and questioned credits	105	Targeted	Holiday credit transaction	14,739					
	-Overpayments			-- Same selections as above --		1	1%	105	N/A	105
	-Questioned payments			-- Same selections as above --		8	8%	934	N/A	934
9	Inadequate controls over settlement pay, resulting in improper and questioned payments	48	Targeted	Settlement transaction	300,086					
	-Overpayments			-- Same selections as above --		1	2%	118	N/A	118
	-Questioned payments			-- Same selections as above --		36	75%	240,515	N/A	240,515
10	Inadequate controls over leave buy-back, resulting in improper payments	39	Targeted	Leave buy-back transaction	66,803					
	-Overpayments			-- Same selections as above --		10	26%	5,494	N/A	5,494
	-Underpayments			-- Same selections as above --		10	26%	(692)	N/A	(692)
Total					<u>\$ 1,446,348</u>			<u>\$ 838,866</u>	<u>\$ 21,704,755</u>	<u>\$ 22,543,621</u>

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

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

Schedule 2— Summary of Findings California School for the Blind March 1, 2015, through February 28, 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	4	Targeted	Employee	N/A	1	25%	\$ -	\$ -	\$ -
3	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	1	Targeted	Employee	\$ 9,276	1	100%	9,276	N/A	9,276
4	Inadequate controls over separation lump-sum pay, resulting in improper and questioned payments	25	Targeted	Lump-sum transaction	194,720					
	-Underpayments		-- Same selections as above --			4	16%	(968)	N/A	(968)
	-Questioned payments		-- Same selections as above --			3	12%	3,096	N/A	3,096
5	Inadequate controls over regular pay, resulting in improper and questioned payments	100	Statistical	Employee	290,057					
	-Overpayments		-- Same selections as above --			1	1%	188	13,180	13,368
	-Questioned payments		-- Same selections as above --			26	26%	71,669	5,033,191	5,104,860
6	Inadequate controls over overtime pay, resulting in improper payments	101	Statistical	Employee	53,804					
	-Overpayments		-- Same selections as above --			12	12%	1,918	2,794	4,712
	-Underpayments		-- Same selections as above --			8	8%	(1,568)	(2,284)	(3,852)
7	Inadequate controls over salary advances, resulting in failure to recover outstanding amounts	1	Targeted	Salary advance transaction	15,257	1	100%	15,257	N/A	15,257
8	Inadequate controls over holiday credit transactions, resulting in improper and questioned credits	42	Targeted	Holiday credit transaction	7,681					
	-Overpayments		-- Same selections as above --			2	5%	416	N/A	416
	-Underpayments		-- Same selections as above --			6	14%	(249)	N/A	(249)
9	Inadequate controls over settlement pay, resulting in improper and questioned payments	20	Targeted	Settlement transaction	148,377					
	-Overpayments		-- Same selections as above --			1	5%	3,594	N/A	3,594
	-Underpayments		-- Same selections as above --			1	5%	(6,107)	N/A	(6,107)
	-Questioned payments		-- Same selections as above --			11	55%	61,870	N/A	61,870
10	Inadequate controls over leave buy-back, resulting in improper payments	19	Targeted	Leave buy-back transaction	28,650					
	-Overpayments		-- Same selections as above --			7	37%	1,573	N/A	1,573
Total					<u>\$ 747,822</u>			<u>\$ 159,965</u>	<u>\$ 5,046,881</u>	<u>\$ 5,206,846</u>

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

Schedule 3— Summary of Findings Diagnostic Centers (North, Central, and South) March 1, 2015, through February 28, 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	4	Targeted	Employee	N/A	1	N/A	\$ -	\$ -	\$ -
3	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	5	Targeted	Employee	\$ 10,337	-	-	-	N/A	-
4	Inadequate controls over separation lump-sum pay, resulting in improper and questioned payments	8	Targeted	Lump-sum transaction	118,368					
	-Underpayments		-- Same selections as above --			3	38%	(2,518)	N/A	(2,518)
	-Questioned payments		-- Same selections as above --			1	13%	102	N/A	102
6	Inadequate controls over overtime pay, resulting in improper payments	3	Targeted	Employee	1,239					
	-Overpayments		-- Same selections as above --			3	100%	466	N/A	466
7	Inadequate controls over salary advances, resulting in failure to recover outstanding amounts	1	Targeted	Salary advance transaction	6,695	1	100%	6,695	N/A	6,695
9	Inadequate controls over settlement pay, resulting in improper and questioned payments	23	Targeted	Settlement transaction	203,591					
	-Questioned payments		-- Same selections as above --			13	57%	113,915	N/A	113,915
Total					<u>\$ 340,230</u>			<u>\$ 118,660</u>	<u>\$ -</u>	<u>\$ 118,660</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

CDE – CSDF, CSB, and DC lacked segregation of duties within its payroll transactions unit adequate to ensure that only valid and authorized payroll transactions were processed. CDE – CSDF, CSB, and DC 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 review found that CDE – CSDF, CSB, and DC 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. CDE – CSDF, CSB, and DC 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 CDE – CSDF, CSB, and DC 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 10, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.

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

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

Recommendation

We recommend that CDE – CSDF, CSB, and DC:

- 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, CDE – CSDF, CSB, and DC 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

CSB and DC lacked adequate controls to ensure that only appropriate staff had keying access to the State’s payroll system. CSB and DC inappropriately granted one employee 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 State’s 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 reviewed the records of four CSB and DC employees who had keying access to the State’s payroll system at various times between March 2015 and February 2018. Of the four employees, one had inappropriate keying access to the State’s payroll system. CSB and DC did not have the employees’ keying access immediately removed or modified after the employees’ 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 CSB and DC:

- Provide adequate controls to ensure that employees with keying access to the State's payroll system do not enter their own data into the system;
- Update keying access to the State's payroll system immediately after employees leave CSB and DC, 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

CSDF and CSB failed to implement controls to ensure that they adhere 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 \$8,853 for CSDF and \$9,276 for CSB as of February 28, 2018². We expect the liability to increase if CSDF and CSB do 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.

For CSDF, payroll records show that six employees exceeded the limit set by collective bargaining agreements and state regulations as of February 28, 2018. For example, one employee had an accumulated balance of 677 hours of annual leave, or 37 hours beyond the 640-hour limit. Collectively, the six employees accumulated 323 hours of excess vacation and annual leave, with a value of at least \$8,853 as of February 28, 2018.

²At the time of our review, we used the most recent and complete vacation and annual leave balances, which were as of February 28, 2018.

For CSB, payroll records show that one employee exceeded the limit set by collective bargaining agreements and state regulations as of February 28, 2018. This one employee had an accumulated balance of 784 hours of excess annual leave, exceeding the limit by 144 hours and having a value of at least \$9,276 as of February 28, 2018.

The estimated liabilities do not adjust for salary rate increases and additional leave credits.³ Accordingly, we expect that the amount needed to pay for this liability will be higher.

If CSDF and CSB do not take action to reduce the excessive leave balances, the liability for accrued vacation and annual leave will likely increase. This is 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 CSDF and CSB:

- Implement controls, including existing policies and procedures, to ensure that their 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

CDE – CSDF, CSB, and DC lacked adequate controls over the processing of employee separation lump-sum pay. For CSDF, we identified \$5,606 in underpayments and \$288,936 in questioned payments for separation lump-sum pay. For CSB, we identified \$968 underpayments and \$3,096 in questioned costs. For DC, we identified \$2,518 underpayments and \$102 in questioned costs. If not mitigated, these control deficiencies leave CDE – CSDF, CSB, and DC at risk of additional improper separation lump-sum payments.

³Most 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.

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.

For CSDF, payroll records show 54 lump-sum pay transactions, for a total of \$425,483. We examined all 54 transactions; of those transactions, CSDF underpaid six employees by \$5,606; we questioned 36 of the 54 transactions with costs in the amount of \$288,935.

For CSB, payroll records show 25 lump-sum pay transactions, for a total of \$194,720. We examined all 25 transactions; of those transactions, CSB underpaid four employees by \$968; we questioned three of the 25 transactions with costs in the amount of \$3,096.

For DC, payroll records show eight lump-sum pay transactions, for a total of \$118,368. We examined all eight transactions; of those transactions, DC underpaid transactions for three employees by \$2,518, and one of the eight transactions involved a questioned cost in the amount of \$102.

Underpayments were made because payroll transactions unit staff members miscalculated leave balances paid and failed to include the leave credits that employees that should have been credited if their leave balances were calculated for lump-sum pay. CDE – CSDF, CSB, and DC also lacked adequate supervisory review to ensure accurate processing of separation lump-sum pay.

The questioned costs resulted from a lack of supporting documentation associated with separation lump-sum pay. 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 the employees. As a result, we questioned these payments.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review.

Recommendation

We recommend that CDE – CSDF, CSB, and DC:

- Establish adequate controls to ensure accurate calculation and payment of separation lump-sum pay;
- Maintain documentation supporting payments pursuant to retention policies;
- Conduct a review of payments for separation lump-sum pay made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law; and

- Recover overpayments made to separated employees in accordance with GC section 19838 and *State Administrative Manual* (SAM) section 8776.6, and properly compensate those employees who were underpaid.

**FINDING 5—
Inadequate
controls over
regular pay,
resulting in
improper and
questioned
payments**

CSDF and CSB lacked adequate controls over the processing of regular pay. For CSDF, we identified \$162,068 in questioned costs. For CSB, we identified \$188 in overpayment and \$71,669 in questioned costs.

For CSDF, payroll records show 15,962 regular pay transactions, for a total of \$60,980,954. Of the 15,962 transactions, we randomly selected a statistical sample of 133 transactions, totaling \$455,642. Of the 133 transactions, we questioned 44 transactions, totaling \$162,068, because CSDF could not provide supporting documentation to show that the payments were valid. Payroll transactions unit staff did not maintain timesheets in accordance with the document retention policy. As we used a statistical sampling method to select the regular pay transactions examined, we projected the amount of likely questioned costs to be approximately \$21,528,341.

The following table summarizes the results of our statistical sampling for CSDF:

Known questioned payments	\$ 162,068
Divide by: Sample	455,642
Error rate for projection (not rounded – presented 2 decimals only)	35.57%
Population that was statistically sampled	60,980,954
Multiply by: Error rate for projection	35.57%
Known and likely questioned payments (differences due to rounding)	21,690,409
Less: Known questioned payments	162,068
Likely questioned payments	\$ 21,528,341

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

For CSB, payroll records show 6,684 regular pay transactions, for a total of \$20,660,193. Of the 6,684 transactions, we randomly selected a statistical sample of 100 transactions, totaling \$290,057. Of the 100 transactions, one was overpaid by \$188 and 26 of the regular pay transactions involved questioned costs, totaling \$71,669, due to missing documentation to support that the payments were valid. As we used a statistical sampling method to select the regular pay transactions examined, we projected the amount of likely improper and questioned costs to be approximately \$5,046,371.

The following table summarizes the results of our statistical sampling for CSB:

Known improper and questioned payments	\$ 71,857
Divide by: Sample	290,057
Error rate for projection (not rounded – presented 2 decimals only)	<u>24.77%</u>
Population that was statistically sampled	20,660,193
Multiply by: Error rate for projection	<u>24.77%</u>
Known and likely improper and questioned payments (differences due to rounding)	5,118,228
Less: Known improper and questioned payments	<u>71,857</u>
Likely improper and questioned payments	<u>\$ 5,046,371</u>

* Amounts in this table are rounded to the nearest dollar. Multiplying by percentage points past two decimals could lead to rounding differences greater/less than +/- 1 when extrapolated against millions.

The questioned costs resulted from a lack of supporting documentation associated with regular pay. Without the required documentation, there is no record of calculation and approval of payments for regular pay. Therefore, we could not determine the validity, accuracy, and propriety of the payments made to the employees. As a result, we questioned these payments.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review.

Recommendation

We recommend that CDE – CSDF, CSB, and DC:

- Establish adequate internal controls to ensure that payments for regular pay are accurate and comply with collective bargaining agreements and state law; and
- Maintain documentation supporting payments pursuant to retention policies.

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

CDE – CSDF, CSB, and DC lacked adequate controls over the processing of overtime pay. For CSDF employees who were paid for less than 150 hours of overtime, we identified the known and likely exception for overpayment as approximately \$47,301, the known and likely exception for underpayment as approximately \$7,052, and the known and likely exception for questioned costs as approximately \$178,279. For CSDF employees who were paid for 150 hours or more of overtime, we identified \$57,880 in questioned costs. For CSB employees who were paid for less than 150 hours of overtime, we identified the known and likely exception for overpayment as approximately \$4,712 and the known and likely exception for underpayment as approximately \$3,852. For DC, we identified \$466 in overpayments. If not mitigated, these control deficiencies leave CDE – CSDF, CSB, and DC at risk of additional improper payments for overtime.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding the calculation of overtime compensation.

Payroll records show that CSDF processed 598 overtime pay transactions, totaling \$466,330; CSB processed 234 overtime pay transactions, totaling \$162,918; and DC processed three overtime pay transactions, totaling \$1,239. CDE – CSDF, CSB, and DC processed the overtime pay between March 1, 2015, and February 28, 2018, as follows:

CSDF – Overtime Payment Type by Group	Unit	Amount
Paid for at least 150 hours (items examined 100%)	15	\$ 57,880
Paid for less than 150 hours (statistically sampled)	583	408,450
Total population	598	\$ 466,330

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

CSB – Overtime Payment Type by Group	Unit	Amount
Paid for at least 150 hours (items examined 100%)	8	\$ 30,739
Paid for less than 150 hours (statistically sampled)	226	132,179
Total population	234	\$ 162,918

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

For CSDF, we examined all 15 transactions for overtime of 150 hours or more, which totaled \$57,880. We questioned all 15 payments for overtime pay because CSDF could not provide supporting documentation to show that the payments were valid and authorized. Therefore, we could not determine the validity of payments for these 15 overtime pay transactions, and questioned the costs.

Of the remaining 583 overtime transactions, totaling \$408,450, for employees who were paid for less than 150 hours of overtime per transaction, we randomly selected a statistical sample of 120 transactions, totaling \$78,715. Of the 120 transactions, CSDF had 38 overpayments in the amount of \$9,116; 12 underpayments in the amount of \$1,359; and 51 questioned costs in the amount of \$34,357. As we used a statistical sampling method to select the overtime pay transactions examined, we projected the net likely improper and questioned payments to be approximately \$176,414.

The following table summarizes the results of our statistical sampling for CSDF:

Known improper and questioned payments, net	\$ 42,114
Divide by: Sample	78,715
Error rate for projection (not rounded – presented 2 decimals only)	53.50%
Population that was statistically sampled	408,450
Multiply by: Error rate for projection	53.50%
Known and likely improper and questioned pay, net (difference due to rounding)	218,528
Less: Known improper and questioned payments, net	42,114
Likely improper and questioned payments, net	\$ 176,414

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

For CSB, from the 226 overtime transactions, totaling \$132,179, for employees who were paid for less than 150 hours of overtime per transaction, we randomly selected a statistical sample of 101 transactions, totaling \$53,804. Of the 101 transactions, CSB had 12 overpayments in the amount of \$1,918 and eight underpayments in the amount of \$1,568; net amount of \$350. As we used a statistical sampling method to select the overtime pay transactions examined, we projected the net likely improper and questioned payments to be approximately \$510.

The following table summarizes the results of our statistical sampling for CSB:

Known improper payments, net	\$ 350
Divide by: Sample	53,804
Error rate for projection	0.65%
Population that was statistically sampled	132,179
Multiply by: Error rate for projection	0.65%
Known and likely improper pay (difference due to rounding)	860
Less: Known improper payments	350
Likely improper payments	\$ 510

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

For DC, we examined all three transactions for overtime, totaling \$1,239, and found that the three transactions were overpaid by \$466.

The improper payments were made because CDE – CSDF, CSB, and DC payroll transactions unit staff members miscalculated employees' overtime hours. CDE – CSDF, CSB, and DC lacked adequate supervisory review to ensure accurate processing of overtime compensation.

GC sections 13400 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 CDE – CSDF, CSB, and DC:

- Conduct a review of payments for overtime made during the past three years to ensure that the payments complied with collective bargaining agreements and state laws and policies;
- 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;
- 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 7—
Inadequate
controls over
salary advances,
resulting in failure
to recover
outstanding
amounts**

CDE – CSDF, CSB, and DC lacked adequate controls over salary advances to ensure that they were recovered in accordance with state law and policies. CSDF had salary advances, totaling \$38,147, that remained outstanding as of February 28, 2018. CSB had salary advances, totaling \$15,257, that remained outstanding as of February 28, 2018. DC had salary advances, totaling \$6,695, that remained outstanding as of February 28, 2018. The salary advances remained outstanding due to CDE – CSDF, CSB, and DC’s noncompliance with the State’s collection policies and procedures. The oldest unrecovered salary advance was outstanding for over 20 years. This control deficiency leaves CDE – CSDF, CSB, and DC at risk of further failures to collect salary advances if not mitigated.

At February 28, 2018, CSDF’s accounting records showed 55 outstanding salary advances, totaling \$59,212, including 43 balances totaling \$38,147 that had been outstanding for more than 120 days. CSB’s accounting records showed 32 outstanding salary advances, totaling \$21,270, including 29 balances totaling \$15,257 that had been outstanding for more than 120 days. DC’s accounting records showed eight outstanding salary advances, totaling \$6,695, with all balances outstanding for more than 120 days.

CDE – CSDF, CSB, and DC did not comply with the State’s collection policies and procedures. They were unable to provide any supporting documentation; therefore, we were unable to determine whether payments were properly paid and documented and determine whether any attempts had been made to recover the advance funds.

Generally, the prospect of collection diminishes as an account ages. When an agency fails to initiate collection of overpayments within three years, the possibility of collection is remote.

GC section 19838 and SAM sections 8776 and 8776.7 describe the State’s collection policies and procedures, which require CDE – CSDF, CSB, and DC to collect salary advances in a timely manner and maintain proper records of collection efforts.

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 CDE – CSDF, CSB, and DC:

- Ensure that they recover salary advances in a timely manner pursuant to GC section 19838 and SAM sections 8776 and 8776.7; and
- Maintain documentation of their collection efforts and payment of salary advances.

**FINDING 8—
Inadequate
controls over
holiday credit
transactions,
resulting in
improper and
questioned credits**

CSDF and CSB lacked adequate controls over the processing of holiday credit transactions. For CSB, we found that holiday credit was over-accrued by approximately \$416 and under-accrued by \$249. For CSDF, we found that holiday credit was over-accrued by approximately \$105, and we questioned \$934 of holiday credit due to missing documentation. If not mitigated, this control deficiency leaves CSDF and CSB at risk of additional improper holiday credits.

For CSDF, we examined 105 holiday credit transactions, totaling approximately \$14,739. The transactions represented a targeted population with a high risk of receiving holiday credit in error when an employee worked on a holiday. Of the 105 transactions, one transaction was over-accrued by \$105 and eight transactions, totaling \$934, were questioned due to missing documentation.

For CSB, we examined 42 holiday credit transactions, totaling approximately \$7,681. The transactions represented a targeted population with a high risk of receiving holiday credit in error when an employee worked on a holiday. Of the 42 transactions, two transactions were over-accrued by \$416 and six transactions were under-accrued by \$249.

CSDF and CSB 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 CSDF and CSB:

- 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 9—
Inadequate
controls over
settlement pay,
resulting in
improper and
questioned
payments**

CDE – CSDF, CSB, and DC lacked adequate controls over the processing of payments for settlement pay. For CSDF, we identified \$118 in overpayments, and \$240,515 in questioned costs due to missing documentation. For CSB, we identified \$3,594 in overpayments, \$6,107 in underpayments, and \$61,870 in questioned costs due to missing documentation. For DC, we identified \$113,915 in questioned costs due to missing documentation. If not mitigated, this control deficiency leaves CDE – CSDF, CSB, and DC at risk of additional improper settlement pay.

For CSDF, payroll records show 48 settlement pay transactions, for a total of \$300,086. We examined all 48 transactions; of those transactions, CSDF overpaid one settlement by \$118. Thirty-six of the settlements involve questioned costs in the amount of \$240,515 due to missing documentation to support that payments were valid.

For CSB, payroll records show 20 settlement pay transactions for a total of \$148,377. We examined all 20 transactions; of those transactions, CSB overpaid one settlement by \$3,594, and underpaid one settlement by \$6,107. Eleven of the settlements involve questioned costs in the amount of \$61,870 due to missing documentation to support that payments were valid.

For DC, payroll records show 23 settlement pay transactions for a total of \$203,591. We examined all 23 transactions; of those transactions, we questioned 13 settlements in the amount of \$113,915 because DC could not provide supporting documentation to show that the payments were valid.

CDE – CSDF, CSB, and DC were unable to provide supporting documents; therefore, we were unable to determine whether payments were properly paid.

CDE – CSDF, CSB, and DC lacked adequate supervisory review to ensure accurate processing of settlement pay.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review.

Recommendation

We recommend that CDE – CSDF, CSB, and DC:

- Establish adequate controls to ensure accurate calculation and payment of settlement pay;
- Review settlement payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state laws;
- Recover overpayments made for settlement pay in accordance with GC section 19838 and SAM section 8776.6, and properly compensate those employees who were underpaid; and
- Maintain documentation supporting payments pursuant to retention policies.

CSDF, CSB, and DC's Response

CSDF, CSB, and DC do not believe the calculation methods utilized in this audit for settlement payments were correct. CSDF, CSB and DC completed the calculations based on the 10-month employees' wages being paid out over a 12-month period, which does not take place in only one fiscal year. Therefore, reviewing settlement payments for the past three years in not warranted or cost effective.

SCO Comment

We discussed our calculation method for settlement payments with CSDF, CSB, and DC staff before and after the issuance of the draft report; and confirmed that it is consistent with their method. However, we modified the finding based on additional information regarding the underpayments in settlement pay for CSDF and CSB.

FINDING 10— Inadequate controls over leave buy-back, resulting in improper payments

CDE – CSDF, CSB, and DC lacked adequate controls over the processing of payments for leave buy-back. For CSDF, we identified \$5,494 in overpayments and \$692 in underpayments, and found that leave balances were not reduced for 14 employees. For CSB, we identified \$1,573 in overpayments and found that leave balances were not reduced for six employees. For DC, the leave balances for one employee were not reduced. If not mitigated, this control deficiency leaves CDE – CSDF, CSB, and DC of having improper payments.

For CSDF, payroll records show 39 leave buy-back transactions, for a total of \$66,803. We examined all 39 transactions; of those transactions, CSDF overpaid 10 leave buy-backs by \$5,494 and underpaid 10 leave buy-backs by \$692, and did not reduce the leave balances for 14 employees.

For CSB, payroll records show 19 leave buy-back transactions, for a total of \$28,650. We examined all 19 transactions; of those transactions, CSB overpaid seven leave buy-backs by \$1,573 and did not reduce the leave balances for six employees.

For DC, payroll records show 20 leave buy-back transactions, for a total of \$26,067. We examined all 20 transactions; of those transactions, DC did not reduce the leave balances for one employee.

Payroll transactions unit staff did not follow proper policies to process payments of leave buy-back, resulting in overpayments as outlined above. These overpayments occurred because no written policies have been developed for payroll transactions unit staff to follow in order to ensure accuracy.

Failing to reduce leave balances of employees could result in double payment in the future.

GC sections 13400 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 CDE – CSDF, CSB, and DC:

- Create written policies and procedures for leave buy-back payments to standardize the process; and
- Establish adequate internal controls to ensure that leave buy-back payments are accurate.

Appendix 1— Sampling Methodology California School for the Deaf, Fremont March 1, 2015, through February 28, 2018

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

Review Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) ¹	Sample Size	Results Projected to Intended Population	Finding Number
Regular Pay	Compliance	15,962	\$60,980,954	Payment transactions	Computer-generated simple random	95%	5%	2 (2%)	133	Yes	5
Overtime pay	Compliance	583	\$408,450	Payment transactions	Computer-generated simple random	95%	5%	2 (2%)	120	Yes	6

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.

Appendix 2— Sampling Methodology California School for the Blind March 1, 2015, through February 28, 2018

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

Review Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) ¹	Sample Size	Results Projected to Intended Population	Finding Number
Regular Pay	Compliance	6,684	\$20,660,193	Payment transactions	Computer-generated simple random	95%	5%	2 (1.75%)	100	Yes	5
Overtime pay	Compliance	226	\$132,179	Payment transactions	Computer-generated simple random	95%	5%	2 (1.75%)	101	Yes	6

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—
California Department of Education’s
Response to Draft Review Report**



**CALIFORNIA DEPARTMENT
OF EDUCATION**

TONY THURMOND
STATE SUPERINTENDENT OF
PUBLIC INSTRUCTION

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July 26, 2019

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

Dear Mr. Finlayson:

The California School for the Deaf – Fremont (CSDF), California School for the Blind (CSB), and Diagnostic Centers (DC) appreciate the opportunity to comment and provide proposed corrective actions for the recommendations outlined in the State Controller's Office (SCO) Audit Report titled, *Payroll Process Review*.

Finding 1 – Concur

Recommendation 1

We recommend that CDE - CSDF, CSB, and DC:

- 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, CDE - CSDF, CSB, and DC 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.

Comments and Corrective Actions

CSDF, CSB, and DC have limited staff and resources available to process payroll and are unable to segregate all payroll functions. Therefore, management will implement a process that includes a periodic review of staff's work; documentation of each review will be maintained.

- Develop formal written procedures for performing and documenting compensating controls.

Comments and Corrective Actions

CSDf, CSB and DC will review their existing processes and develop formal written procedures for compensating controls.

Finding 2 – Concur

Recommendation 2

We recommend that CSB and DC:

- Provide adequate controls to ensure that employees with keying access to the State's payroll system do not enter their own data into the system.

Comments and Corrective Actions

CSB and DC have two staff with access and authorization to the State's payroll system; however, they do not enter their own data into the payroll system. To ensure adequate control is maintained, the Human Resources Director currently reviews, and will continue to review, their monthly timesheet entries. Detailed documentation of each review will be completed and maintained as appropriate.

- Update keying access to the State's payroll system immediately after employees leave CSB and DC, transfer to another unit, or change classifications.

Comments and Corrective Actions

CSB and DC personnel staff will immediately request the removal of keying access to the State's payroll system once an employee leaves, transfers or changes classifications. In addition, an email will be sent to the SCO immediately following the employee's separation, as well as submitting/mailing the proper form to the SCO. A copy of the request will be placed in the employee's file and into a dedicated binder for documentation review.

- Periodically review access to the system to verify that access complies with the *Decentralized Security Program Manual*.

Comments and Corrective Actions

CSB and DC will periodically complete a review of employee access to the payroll system to verify that CSB and DC remain in compliance with the *Decentralization Security Program Manual*.

Finding 3 - Concur

Recommendation 3

We recommend that CSDF and CSB:

- Implement controls, including existing policies and procedures, to ensure that their employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations.

Comments and Corrective Actions

CSDF and CSB will strengthen existing policies and procedures regarding maintenance of vacation and annual leave balances and implement additional controls where permitted to assist employees in managing leave balances within the levels allowed by collective bargaining agreements and state regulations. In doing so, CSDF and CSB will work with employees with excessive leave balances to develop a reduction plan. If necessary, a justification as to why leave balances cannot be reduced by the end of the calendar year will be included.

- Conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively.

Comments and Corrective Actions

CSDF and CSB will implement a process to track and monitor employees with excessive leave balances to ensure every effort is made to reduce balances.

- Participate in leave buy-back programs if the State offers such programs and funds are available.

Comments and Corrective Actions

CSDF and CSB regularly participate in the leave buy-back program when it is offered and will continue to do so as long as funding is available.

Finding 4 – Concur

Recommendation 4

We recommend that CDE - CSDF, CSB, and DC:

- Establish adequate controls to ensure accurate calculation and payment of separation lump-sum pay.

Comments and Corrective Actions

CSDF, CSB, and DC will review existing processes to determine what additional internal controls are needed to ensure accurate calculation and payment of separation lump-sum pay. In addition, a review of the lump-sum calculations by another staff person will be completed and documented.

CSB and DC will also have management complete and document an additional review.

- Maintain documentation supporting payments pursuant to retention policies.

CSDF, CSB, and DC will ensure all documentation is properly maintained to support lump-sum separation payments pursuant to retention policies.

- Conduct a review of payments for separation lump-sum pay made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law.

Comments and Corrective Actions

CSDF, CSB, and DC will begin conducting reviews of payments for separation lump-sum pay to ensure they were accurate and in compliance with collective bargaining agreements and state law; reviews are anticipated to be completed by June 2020.

- 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.

Comments and Corrective Actions

CSDF, CSB, and DC will make every effort to recover overpayments made to separated employees and will also properly compensate employees who were underpaid. This process will be initiated after all prior year reviews are completed.

Finding 5 – Concur

Recommendation 5

We recommend that CDE - CSDF, CSB, and DC:

- Establish adequate internal controls to ensure that payments for regular pay are accurate and comply with collective bargaining agreements and state law.

Comments and Corrective Actions

CSDF, CSB, and DC will review existing processes and determine what additional internal controls are needed to ensure payments for regular pay are accurate and comply with collective bargaining agreements and state law.

- Maintain documentation supporting payments pursuant to retention policies.

CSDF, CSB, and DC will ensure all documentation is properly maintained to support payments for regular pay pursuant to retention policies.

Finding 6 – Concur

Recommendation 6

We recommend that CDE - CSDF, CSB, and DC:

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

Comments and Corrective Actions

CSDF, CSB, and DC will review improper overtime payments identified during the audit and correct errors, if permissible, in the State's leave accounting system.

- 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.

Comments and Corrective Actions

CSDF, CSB, and DC will make every effort to recover any overpayments identified through the audit and subsequent review. In addition, any

underpayments identified in the audit or subsequent review will be remedied.

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state laws and policies.

Comments and Corrective Actions

CSDF, CSB, and DC will review existing policies to ensure adequate internal controls are in place to confirm payments are accurate, comply with collective bargaining agreements, state laws, and policies. Additionally, a periodic review of staff's work will be incorporated into the process and once completed will be documented and retained as appropriate.

- 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.

Comments and Corrective Actions

CSDF, CSB, and DC have a process in place to ensure all overtime is pre-approved in writing by the supervisor and submitted with the timesheet. To further strengthen the existing process, staff will maintain proper documentation of all overtime approvals. In addition, overtime policies will be provided to staff to reinforce accurate processing of valid and authorized payments that comply with collective bargaining agreements, state laws and policies.

Finding 7 – Concur

Recommendation 7

We recommend that CDE - CSDF, CSB, and DC:

- Ensure that they recover salary advances in a timely manner pursuant to GC section 19838 and SAM sections 8776 and 8776.7.

Comments and Corrective Actions

CSDF, CSB, and DC will review the existing processes for recovering salary advances in a timely manner and update as needed.

- Maintain documentation of their collection efforts and payment of salary advances.

Comments and Corrective Actions

CSDF, CSB, and DC will ensure all documentation is properly maintained to support the recovery of salary advances in a timely manner pursuant to retention policies.

Finding 8 – Concur

Recommendation 8

We recommend that CSDF and CSB:

- Conduct a review of holiday credits granted during the past three years to ensure that credits complied with collective bargaining agreements and state law.

Comments and Corrective Actions

CSDF and CSB will begin conducting reviews of holiday credits to ensure that credits complied with collective bargaining agreements and state law; reviews are anticipated to be completed by June 2020.

- Correct any improper holiday credits in the State's leave accounting system.

Comments and Corrective Actions

CSDF and CSB will review improper holiday credit accruals identified during the audit and correct errors, if permissible, in the State's leave accounting system.

- Establish adequate controls to ensure that holiday credits granted are valid and comply with collective bargaining agreements and state law.

Comments and Corrective Actions

CSDF and CSB will strengthen existing controls to include a review by management of holiday credits granted to ensure compliance with collective bargaining agreements and state law. The review will be documented when completed.

Finding 9 – Partially Concur

Recommendation 9

We recommend that CDE - CSDF, CSB, and DC:

- Establish adequate controls to ensure accurate calculation and payment of settlement pay.

Comments and Corrective Actions

CSDF, CSB, and DC will review existing policies to ensure adequate internal controls are in place to confirm payments are accurate, comply with collective bargaining agreements, state laws, and policies.

In addition, CSDF, CSB, and DC will begin having a second staff person review the settlement calculations and document the review once the information is verified.

CSB and DC's Human Resources Director will also review the settlement calculations and document the review once completed.

- Review settlement payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state laws.

Comments and Corrective Actions

CSDF, CSB, and DC do not believe the calculation methods utilized in this audit for settlement payments were correct. CSDF, CSB, and DC completed the calculations based on the 10-month employees' wages being paid out over a 12-month period, which does not take place in only one fiscal year. Therefore, reviewing settlement payments for the past three years is not warranted or cost effective.

- Recover overpayments made for settlement pay in accordance with GC section 19838 and SAM section 8776.6, and properly compensate those employees who were underpaid.

Comments and Corrective Actions

CSDF, CSB, and DC do not believe the calculation methods utilized in this audit for settlement payments were correct. CSDF, CSB, and DC complete the calculations based on the 10-month employees' wages being paid out over a 12-month period, which does not take place in only one fiscal year. Therefore, cost recovery efforts are not necessary, nor is compensation to underpaid employees, since we do not believe any errors have occurred.

- Maintain documentation supporting payments pursuant to retention policies.

Comments and Corrective Actions

CSDf, CSB, and DC will ensure all documentation is properly maintained to support accurate calculation and payment of settlement pay pursuant to retention policies.

Finding 10 – Concur

Recommendation 10

We recommend that CDE - CSDf, CSB, and DC:

- Create written policies and procedures for leave buy-back payments to standardize the process.

Comments and Corrective Actions

CSDf, CSB, and DC will develop and implement written policies and procedures for leave buy-back payments to standardize the process. Documentation will be maintained for the staff that participate in the leave buy-back program.

- Establish adequate internal controls to ensure that leave buy-back payments are accurate.

Comments and Corrective Actions

CSDf, CSB, and DC management will periodically complete a review of staff's work to ensure that leave buy-back payments are accurate; the review will be documented once completed.

If you have any questions regarding the CSDf, CSB, and DC's comments and/or corrective actions, please contact Kimberly Tarvin, Director, Audits and Investigations Division, by phone at 916-323-1547 or by email at ktarvin@cde.ca.gov.

Sincerely,



Lupita Cortez Alcalá
Chief Deputy Superintendent of Public Instruction

LCA:kl

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