CALIFORNIA CORRECTIONAL CENTER

Audit Report

PAYROLL AUDIT

August 1, 2015, through July 31, 2018

BETTY T. YEE
California State Controller

September 2021

BETTY T. YEE
California State Controller

September 27, 2021

Suzanne M. Peery, Warden
California Correctional Center
P.O. Box 790
Susanville, CA 96127

Dear Ms. Peery:

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

Our audit determined that CCC did not maintain adequate and effective internal controls over its payroll process. CCC lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper separation lump-sum payments. CCC also granted inappropriate keying access to the State's payroll system.

In addition, CCC did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances. CCC also did not promptly collect salary advances from its employees.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310, or by email at afinlayson@sco.ca.gov.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Correctional Center's (CCC) payroll process and transactions for the period of August 1, 2015, through July 31, 2018. CCC 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 March 10, 2021.

Our audit determined that CCC:

- Did not maintain adequate and effective internal controls over its payroll process. CCC lacked adequate segregation of duties and compensating controls over payroll transactions that resulted in improper separation lump-sum payments. We also found that CCC granted inappropriate keying access to the State's payroll system;
- Did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances; and
- Did not promptly collect salary advances from its employees.

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 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 CCC:

- 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 August 1, 2015, through July 31, 2018. The audit population consisted of payroll transactions totaling $315,753,335, as quantified in the Schedule.

To achieve our audit objectives, we:

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

- Did not maintain adequate and effective internal controls over its payroll process.[1] We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
  - Inadequate segregation of duties and a lack of compensating controls over payroll transactions (see Finding 1);
  - Inappropriate keying access to the State's payroll system (see Finding 2);
  - Failure to implement controls to ensure that CCC adhered 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 balances (see Finding 3);
  - Inadequate controls to ensure that separation lump-sum payments were calculated correctly, resulting in improper payments (see Finding 4); and
  - Inadequate controls to ensure that outstanding salary advances were collected, resulting in failure to recover outstanding amounts (see Finding 5).
- 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:
  - Excessive vacation and annual leave balances with a value of at least $1,391,397 as of July 31, 2018 (see Finding 3).

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[1] In planning and performing our audit of compliance, we considered CCC'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; it was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. As discussed in this section, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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

On October 20, 2020, the California Department of Human Resources directed departments to immediately suspend policies that require leave balances to be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension was in effect until the 2020 Personal Leave Program (2020 PLP) ended on July 1, 2021; and

  - Improper payments made for separation lump-sum pay, costing an estimated net total underpayments of $1,647 (see Finding 4).

- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. Two salary advances, totaling $595, remained outstanding as of July 31, 2018, due to CCC's noncompliance with the State's collection policies and procedures (see Finding 5).

Follow-up on Prior Audit Findings

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

Views of Responsible Officials

We issued a draft audit report on June 2, 2021. Suzanne M. Peery, Warden, responded by letter dated June 7, 2021, acknowledging the findings and indicating that CCC has taken steps to correct the noted deficiencies. This final audit report includes CCC's complete response as an attachment.

Restricted Use

This audit report is solely for the information and use of CCC, the California Department of Corrections and Rehabilitation, 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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

September 27, 2021

Schedule— Summary of Audit Results August 1, 2015, through July 31, 2018

Audit Area Tested	Method of Selection	Number of Units of Population	Dollar Amount of Population	Number of Selections Examined	Selection Unit	Dollar Amount of Selections Examined	Net Total Dollar Amount of Known and Likely Issues	Finding Number
Segregation of duties	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
System access	Targeted	17	N/A	17	Employee	N/A	N/A	2
Regular pay	Statistical	41,463	$ 231,229,866	77	Transaction	$ 433,275	$ -	
Overtime pay	Statistical	21,922	74,641,204	77	Transaction	273,054	-	
Excess vacation and annual leave	Targeted	64	1,391,397	64	Employee	1,391,397	1,391,397	3
Separation lump-sum pay	Statistical and targeted	237	6,800,676	68	Employee	3,409,210	(1,647)	4
Leave buy-back	Targeted	27	81,780	78	Employee	81,780	-	
Uniform allowance	Statistical	2,214	1,593,992	105	Employee	78,262	-	
Holiday credit	Targeted	54	13,825	54	Employee	13,825	-	
Salary advance	Targeted	2	595	2	Transaction	595	595	5
			$ 315,753,335			$ 5,681,398	$ 1,390,345	

Findings and Recommendations

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

CCC lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. CCC 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 CCC 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. CCC 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 CCC 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 5, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a 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 CCC:

- 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, CCC 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

CCC lacked adequate controls to ensure that only appropriate staff had keying access to the State's payroll system. CCC inappropriately allowed two 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 17 CCC employees who had keying access to the State's payroll system at various times between August 2015 and July 2018. Of the 17 employees, two had inappropriate keying access to the State's payroll system. Specifically, CCC did not immediately remove or modify keying access for the two employees after the employees' separation from state service, transfer to another agency, or change in classification. For example, a Personnel Specialist left CCC on February 11, 2018; however, CCC did not request to remove the employee's access until March 28, 2018, 45 days later.

The *Decentralized Security Program Manual* (Revised December 2015) 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. . . .
>
> For self-protection, the password owner must . . . Not reveal/share their password to ANYONE. . . .
>
> 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 CCC:

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

CCC failed to implement controls to ensure that it adhered to the requirements of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits. This deficiency resulted in liability for excessive leave balances with a value of at least $1,391,397 as of July 31, 2018. We expect the liability to increase if CCC 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 to manage leave balances and control the State's liability for accrued leave credits. State agencies may allow employees to carry a higher leave balance only under limited circumstances. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit due to business needs. When an employee's leave accumulation exceeds or is projected to exceed the limit, state agencies should work with the employee to develop a written plan to reduce leave balances below the applicable limit.

Our examination of CCC's leave accounting records determined that CCC had 1,026 employees with unused vacation or annual leave credits at July 31, 2018. Of the 1,026 employees, 64 employees exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,168 hours of vacation, or 1,528 hours beyond the 640-hour limit. Collectively, the 64 employees accumulated 27,155 hours of excess vacation and annual leave, with a value of at least $1,391,397 as of July 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 CCC employee separated from state service with 2,650 hours in leave credits, including 1,353 hours in annual leave. After adjusting for additional leave credits, the employee should have been paid for 2,980 hours, or 12% more.

We further examined the records of the 64 employees to determine whether CCC complied with collective bargaining agreements and state regulations. We determined that CCC 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. We also found that CCC had no plans in place during the audit period to reduce leave balances below the limit.

If CCC 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, thus 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 separation lump-sum payment, regardless of where the employee accrued the leave balance.

On October 20, 2020, the California Department of Human Resources directed departments to immediately suspend policies that require leave balances to be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension was in effect until the 2020 PLP ended on July 1, 2021.

[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.

Recommendation

We recommend that CCC:

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

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

CCC lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of separation lump-sum pay. CCC lacked adequate supervisory review to ensure accurate and timely processing of separation lump-sum pay. If not mitigated, these control deficiencies leave CCC at risk of making additional improper separation lump-sum payments.

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

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

Our examination of separation lump-sum pay identified improper payments. Although the improper payments were deemed insignificant, these control deficiencies over the processing of separation lump-sum pay represent a risk that CCC will not prevent, or detect and correct, improper payments in a timely manner. Payroll records show that CCC processed separation lump-sum payments, totaling $6,800,676, for 237 employees for the period August 1, 2015, through July 31, 2018, as follows:

Separation Lump-Sum Pay Group	Unit	Amount
Section 7(k) employees (statistically sampled)	114	$ 3,602,098
Non-section 7(k) employees (examined 10 highest payments)	123	3,198,578
Total population	237	$ 6,800,676

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

Of the 114 employees who were covered by the provisions of Section 7(k) of the Fair Labor Standards Act and granted separation lump-sum pay, totaling $3,602,098, we randomly selected a statistical sample (as described in the Appendix) of 58 employees who received separation lump-sum payments, totaling $2,116,268. Of the 58 employees, two were overpaid by approximately $195 and three were underpaid by approximately $1,038. These payments represent a net total of $843 in underpayments.

As we used a statistical sampling method to select the Section 7(k) employees whose separation lump-sum payments were examined, we projected the amount of likely overpayments to be $136 and likely underpayments to be $728. These payments represent a net total of $592 in underpayments. Therefore, the known and likely net underpayments totaled approximately $1,435, consisting of $331 in overpayments and $1,766 in underpayments.

The following table summarizes the results of our statistical sampling:

Known underpayments, net	$ 843
Divide by: Sample	2,116,268
Error rate for projection (differences due to rounding)	0.04%
Population that was statistically sampled	3,602,098
Multiply by: Error rate for projection	0.04%
Known and likely underpayments, net (differences due to rounding)	1,435
Less: Known underpayments, net	843
Likely underpayments, net	$ 592

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

Of the remaining 123 employees who were not covered by the provisions of Section 7(k) of Fair Labor Standards Act and granted separation lump-sum pay, totaling $3,198,578, we selected 10 employees who were granted the highest payments, totaling $1,292,942. The payments for these selections represent 40% of the total separation lump-sum payments to non-Section 7(k) employees. Of these 10 employees whose payments we examined, one was underpaid by approximately $212.

The known improper payments were made because payroll transactions unit staff members miscalculated leave balances paid for separation lump-sum pay. CCC also lacked adequate supervisory review to ensure accurate and timely processing of separation lump-sum pay.

<u>Recommendation</u>

We recommend that CCC:

- Establish adequate controls to ensure accurate separation lump-sum payments;
- 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 salary advances, resulting in failure to recover outstanding amounts

CCC lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over salary advances to ensure that advances were recovered in accordance with state law and policies. Two salary advances, totaling $595, remained outstanding as of July 31, 2018, due to CCC's noncompliance with the State's collection policies and procedures. These control deficiencies leave CCC at risk of failing to collect further salary advances if not mitigated.

At July 31, 2018, CCC's accounting records showed two outstanding salary advances, totaling $595, which had been outstanding for more than 90 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.

We examined the two salary advances that had been outstanding for more than 90 days. We noted that CCC did not comply with the State's collection policies and procedures for the two salary advances. CCC did not send collection notices promptly.

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.

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

Recommendation

We recommend that CCC ensure that it recovers salary advances in a timely manner, pursuant to GC section 19838 and SAM sections 8776 and 8776.7.

Appendix—
Audit Sampling Methodology

We used attributes sampling for tests of compliance. The sample design was chosen because:

- It follows the American Institute of Certified Public Accountants (AICPA) guidelines;
- It allows us to achieve our objectives for tests of compliance in an efficient and effective manner; and
- Audit areas included both high and low volumes of transactions.

The following table outlines our audit sampling application for all audit areas where statistical sampling was utilized:

Audit Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) [a]	Sample Size [b]	Results Projected to Intended Population	Finding Number
Regular pay	Compliance	41,463	$ 231,229,866	Transaction	Computer-generated simple random	90%	5%	1 (1.25%)	77	Yes	
Overtime pay	Compliance	21,922	74,641,204	Transaction	Computer-generated simple random	90%	5%	1 (1.25%)	77	Yes	
Separation lump-sum pay	Compliance	114	3,602,098	Employee	Computer-generated simple random	90%	5%	2 (1.00%)	58	Yes	4
Uniform allowance	Compliance	2,214	1,593,992	Employee	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	

[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 1.0 error.

[b] For populations of fewer than 250 items, we determined the sample size using a calculator that uses a hypergeometric distribution. For populations of 250 items or more, we determined the sample size using a calculator that uses a binomial distribution. As stated in *Technical Notes on the AICPA Audit Guide:* Audit Sampling (March 1, 2012), page 5, although the hypergeometric distribution is the exactly correct distribution to use for attributes sample sizes, the distribution becomes unwieldy for large populations unless suitable software is available. Therefore, more convenient approximations are frequently used instead.

Attachment—
California Correctional Center's Response to Draft Audit Report

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

DIVISION OF ADULT INSTITUTIONS
CALIFORNIA CORRECTIONAL CENTER
P.O. Box 790
Susanville, CA 96127

June 7, 2021

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office, 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 2, 2021, regarding the Payroll Process Review of California Correctional Center (CCC) for the period of August 1, 2015 through July 31, 2018. CCC takes its responsibility seriously to ensure that effective payroll processes are in place and is committed to continually improving these processes.

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 payroll transactions.

Response: CCC agrees to the audit findings and will continue its efforts to segregate duties while also balancing the ongoing challenge of shifting workloads resulting from staff turnover and vacancies. The Personnel Specialist (PS) duties and responsibilities consist of processing various personnel/payroll transactions, including data entry, reconciliation, and processing adjustments and corrections. Over the years, these duties have increased significantly for the PS's, Senior PS's, and Personnel Supervisor I/II (PS I/II). CCC continues its efforts with the implementation of the Business Information System and Telestaff programs, which have built-in controls to ensure segregation of duties. For example, the timekeeper's duties do not overlap with the personnel transactions staff who key into the payroll system.

In addition, we have implemented the Electronic Personnel Operation Manual (ePOM) Section 702, Accurate and Timely Leave Accounting Procedures, to ensure the Personnel Supervisor performs monthly reviews of timesheets to reconcile pay and leave, as well as periodic reviews of payments keyed into the payroll system by our personnel staff. CCC will also develop formal procedures for performing and documenting compensating controls.

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

Response: CCC has confirmed that all employees with current SCO access are authorized, in order to avoid inappropriate keying access to the State's payroll system. CCC will also follow the SCO Decentralized Handbook procedures for removing or adding SCO access for staff. CCC has also implemented internal controls such as risk assessments, control activities, information and communication, and monitoring to prevent errors or undesirable outcomes before they occur.

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

Response: CCC agrees to the audit findings and has implemented the leave reduction plan requirements effective July 2019 to comply with the applicable leave reduction effort policies. The requirements state that employees with leave balances over the cap must have leave reduction plans that are approved by their respective supervisors. On June 4, 2019, the "Leave Reduction Plan Requirements-Action Due by July 5, 2019" memorandum was distributed to all staff from the CDCR HR Mailbox, which requires the completion and documentation of leave reduction plans for all employees in excess of or approaching leave credit balance limitations. This annual process will assist in reducing vacation and annual leave balances in order to avoid future liability for excessive balances. CCC has implemented these internal controls to minimize the Department's future liabilities. However, effective October 26, 2020, the California Department of Human Resources suspended leave reduction plan requirements for the duration of the 2020 Personal Leave Program (PLP), or July 1, 2022. Although the leave reduction plan requirements are temporarily suspended, when operationally feasible, managers and supervisors are encouraged to work with employees to reduce leave balances, utilizing PLP and vacation/annual leave for scheduled time off.

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

Response: CCC will use the Lump Sum memorandum, Personnel Information Bulletin (PIB), and Form released in October of 2020 to ensure all lump sum calculations are correct and timely. This PIB provides processing instructions to PS's for deferring lump sum separation pay into the next calendar year, as well as deferrals into a Savings Plus Plan. CCC will also use the SCO's Online Support for 2020 Lump Sum Separation Pay Documentation and Processing toolkit. The toolkit provides a Guide For Avoiding Common Errors: Lump Sum Documentation and Processing, Lump Sum Worksheet, and Lump Sum Pretax Calculator. All of these tools will aid CCC to ensure all lump sum calculations are correct and timely.

Finding #5 — Inadequate controls over salary advances, resulting in failure to recover outstanding amounts.

Response: Since the audit, CCC is more efficiently tracking records of outstanding salary advances and documents sent to SCO to request pay. We run the aging report twice a month and review the AR/SA report that is sent out from headquarters. Our outstanding salary advances have been reduced and are well managed.

CCC welcomes insights provided by the auditors and would like to thank SCO for its work on this report. CCC continues to place importance on the quality of work of the Personnel Office and is looking forward to continued improvement. We will take corrective action as necessary to address the issues identified in this report. Should you have any questions, please contact Michelle Tisdale, Staff Services Manager I/Institution Personnel Officer, at (530) 257-2181, extension 4397.

Sincerely,

SUZANNE PEERY
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