

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Audit Report

PAYROLL AUDIT

March 1, 2016, through February 28, 2019



BETTY T. YEE
California State Controller

November 2020



BETTY T. YEE
California State Controller

November 17, 2020

Marko Mijic, Acting Director
Office of Statewide Health Planning and Development
2020 West El Camino Avenue
Sacramento, CA 95833

Dear Mr. Mijic:

The State Controller's Office audited the Office of Statewide Health Planning and Development's (OSHPD) payroll process and transactions for the period of March 1, 2016, through February 28, 2019. OSHPD 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 OSHPD did not maintain adequate and effective internal controls over its payroll process. OSHPD lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper regular, overtime, separation lump-sum, and leave buy-back payments. OSHPD also granted inappropriate keying access to the State's payroll system.

In addition, OSHPD did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances. OSHPD 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

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Eric Reslock, Acting Chief Deputy Director
Office of Statewide Health Planning and Development
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Office of Statewide Health Planning and Development
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Audit Report

Summary

The State Controller's Office (SCO) audited the Office of Statewide Health Planning and Development's (OSHPD) payroll process and transactions for the period of March 1, 2016, through February 28, 2019. OSHPD 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 September 9, 2020.

Our audit determined that OSHPD did not:

- Maintain adequate and effective internal controls over its payroll process. OSHPD lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper payments for regular, overtime, separation lump-sum, and leave buy-back payments. OSHPD also granted inappropriate keying access to the State's payroll system;
- Implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances; and
- 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 OSHPD:

- 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 period was March 1, 2016, through February 28, 2019. The audit population consisted of payroll transactions totaling \$120,575,396, as quantified in the Schedule.

To achieve our audit objectives, we:

- Reviewed state and OSHPD policies and procedures related to the payroll process to understand OSHPD's methodology for processing various payroll and payroll-related transactions;
- Interviewed the OSHPD payroll personnel to understand OSHPD'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 OSHPD 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 OSHPD:

- 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 OSHPD 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 payments for regular pay were adjusted properly for absences and supported with adequate documentation, resulting in overpayments and questioned payments (see Finding 4);
 - Inadequate controls to ensure that overtime payments were calculated correctly, granted for valid overtime hours worked, and supported with adequate documentation, resulting in improper and questioned payments (see Finding 5);
 - Inadequate controls to ensure that separation lump-sum payments were calculated correctly and paid in a timely manner, resulting in improper and late payments (see Finding 6);
 - Inadequate controls to ensure that salary advances were collected in a timely manner, resulting in failure to recover outstanding amounts (see Finding 7);

¹ In planning and performing our audit of compliance, we considered OSHPD'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.

- Inadequate controls to ensure that leave balances were reduced in the leave accounting system for leave buy-back transactions, resulting in overpayments (see Finding 8);
- Did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. We found the following instances of noncompliance with the requirements of collective bargaining agreements and state laws, regulations, policies, and procedures:
 - Excessive vacation and annual leave balances with a value of at least \$380,862 as of February 28, 2019 (see Finding 3).

Although a new directive from California Department of Human Resources (CalHR) that became effective October 20, 2020, does not affect the dollar value of this finding, we are disclosing this directive because it affects our recommendation. CalHR has directed departments to immediately suspend policies that require leave balances be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension will be in effect until the 2020 Personal Leave Program (2020 PLP) ends, or July 1, 2022, whichever is sooner;

- Overpayments and questioned payments made for regular pay (see Finding 4), improper and questioned payments made for overtime pay (see Finding 5), improper and late payments made for separation lump-sum pay (see Finding 6), and overpayments made for leave buy-back (see Finding 8), costing an estimated net total of \$5,518,651; and
- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. Six salary advances, totaling \$10,782, remained outstanding as of February 28, 2019, due to OSHPD's noncompliance with the State's collection policies and procedures (see Finding 7).

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 October 6, 2020. Marko Mijic, Acting Director, responded by letter dated October 19, 2020 (Attachment), agreeing with Findings 1, 2, 4, 5, 6, 7, and 8, and indicating that OSHPD has taken steps to correct the noted deficiencies. We will follow up during the next payroll audit to verify that these corrective actions were adequate and appropriate. OSHPD also provided additional information regarding Findings 1, 2, and 3. Our comments on OSHPD's response to Findings 1, 2, and 3 are included in the Findings and Recommendations section. This final audit report includes OSHPD's response.

Restricted Use

This audit report is solely for the information and use of OSHPD and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

November 17, 2020

**Schedule—
Summary of Audit Results
March 1, 2016, through February 28, 2019**

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	33	N/A	33	Employee	N/A	N/A	2
Excess vacation and annual leave	Targeted	33	\$ 380,862	33	Employee	\$ 380,862	\$ 380,862	3
Regular pay	Statistical	16,653	117,143,934	105	Transaction	692,204	5,474,825	4
Overtime pay	Statistical	584	690,982	105	Transaction	105,949	81,495	5
Separation lump-sum pay	Statistical	98	1,600,332	57	Employee	753,264	(55,609)	6
Salary advance	Targeted	6	10,782	6	Transaction	10,782	10,782	7
Leave buy-back	Statistical	181	748,504	60	Transaction	249,899	17,940	8
			<u>\$ 120,575,396</u>			<u>\$ 2,192,960</u>	<u>\$ 5,910,295</u>	

Findings and Recommendations

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

OSHPD lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. OSHPD 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 OSHPD 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. In addition, as described in Finding 2, seven managers had keying access to the payroll system while responsible for approving payroll transactions entered in the system. OSHPD 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 OSHPD payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. These control deficiencies, in combination with other deficiencies discussed in Findings 2 through 8, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that 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 OSHPD:

- 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, OSHPD 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.

OSHPD's Response

OSHPD concurs with this finding. However, OSHPD can only segregate duties to the extent allowed by allocated staffing and ensuing vacancies and/or turnover. The duties and responsibilities of the Personnel Specialist consist of processing various personnel/payroll transactions, including data entry, reconciliation, and processing of adjustments and corrections. Prior to this audit, OSHPD has implemented controls, incorporated additional review, and improved compensating controls over these transactions. These reviews consist of a monthly review by a senior analyst of the Time and Attendance Report (Form 672) and the Transactions Manager reviewing all Employee Time Certification (Form 966), Payroll Exception Report (Form 666) and Absence Without Pay Report (Form 603). In addition, OSHPD is in the process of drafting processes and procedures for conducting these monthly reviews that will be completed by March 2021.

SCO Comment

Our finding remains unchanged.

OSHPD concurred with the finding. We appreciate OSHPD's response regarding the actions it is planning to take to correct the noted deficiencies. In its response, OSHPD also asserts the existence of compensating controls to mitigate the risk associated with the lack of adequate segregation of duties. As discussed in the finding, we found that OSHPD lacked adequate segregation of duties and compensating controls within its payroll transactions unit. OSHPD's response stated that a senior analyst and a manager perform reviews of payroll forms. These activities, if performed effectively, provide prudent detective controls to identify errors after they occurred; however, as discussed in the finding, we found no evidence that such activities existed during our audit. In its response, OSHPD did not provide additional documents to support that assertion.

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

OSHPD lacked adequate controls to ensure that only appropriate staff had keying access to the State’s payroll system. OSHPD inappropriately allowed 20 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 33 OSHPD employees who had keying access to the State’s payroll system at various times between March 2016 and February 2019. Of the 33 employees, 20 had inappropriate keying access to the State’s payroll system. Specifically, OSHPD did not immediately remove or modify keying access for 13 employees after the employees’ separation from state service, transfer to another agency, or change in classification. A Senior Personnel Specialist changed to an ineligible classification on June 1, 2016; OSHPD did not request to remove the employee’s access until February 14, 2017 (258 days later).

In addition, seven managers had keying access to the payroll system. Keying access was withdrawn from six of the seven managers during the audit period; one manager retained keying access during the audit period. We determined that OSHPD had obtained approval from PPSD to provide this manager with ongoing keying access. However, we found no evidence that OSHPD implemented controls to address the risks associated with a manager who has keying access to the payroll system while also being responsible for approving payroll transactions entered in the system.

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

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

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

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

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

Manager classifications will be granted inquiry access only.

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 OSHPD:

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

OSHPD's Response

OSHPD concurs with this finding. Since 2018, adequate controls have been put in place to remove employees' access in a timely manner. In addition, the Chief of Human Resources completes a periodic review of access to the SCO system in compliance with the *State Decentralized Security Program Manual*. OSHPD considers this finding resolved.

SCO Comment

Our finding remains unchanged.

OSHPD concurred with the finding. We appreciate OSHPD's response regarding the existence of controls over employees' payroll system access. OSHPD asserts the existence of adequate controls over the removal of employees' access in a timely manner. As discussed in the finding, we found that OSHPD lacked adequate controls to ensure that only appropriate staff had keying access to the State's payroll system. OSHPD did not immediately remove or modify keying access for 13 employees after the employees' separation from state service, transfer to another agency, or change in classification. OSHPD also granted keying access to seven managers, in violation of the *Decentralized Security Program Manual*.

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

OSHPD 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 \$380,862 as of February 28, 2019. We expect the liability to increase if OSHPD 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 OSHPD's leave accounting records determined that OSHPD had 407 employees with unused vacation or annual leave credits at February 28, 2019. Of those employees, 33 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 1,806 hours in annual leave, or 1,166 hours beyond the 640-hour limit. Collectively, the 33 employees accumulated 5,360 hours of excess vacation and annual leave, with a value of at least \$380,862 as of February 28, 2019.

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 OSHPD employee separated from state service with 1,338 hours of leave credits, including 798 hours of annual leave. After adjusting for additional leave credits, the employee should have been paid for 1,582 hours, or 18% more.

We further examined the records of the 33 employees to determine whether OSHPD complied with collective bargaining agreements and state regulations. We determined that OSHPD 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, for 19 of the 33 employees, OSHPD had no plans in place during the audit period to reduce leave balances below the limit.

If OSHPD 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.

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.

Although a new directive from CalHR that became effective October 20, 2020, does not affect the dollar value of this finding, we are disclosing this directive because it affects our recommendation. CalHR has directed departments to immediately suspend policies that require leave balances be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension will be in effect until the 2020 PLP ends, or July 1, 2022, whichever is sooner.

Recommendation

We recommend that, after the 2020 PLP ends, or July 1, 2022, whichever is sooner, OSHPD:

- 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.

OSHPD's Response

Since 2018, OSHPD implemented a process to send memos to both the employee with excessive leave balances and their supervisors notifying them of their balances and requesting leave reduction plans be submitted to the Human Resources Services Section (HRSS) for monitoring. OSHPD also sends out an annual notification to all employees regarding the leave balance maximums and suggestions for maintaining leave balances under the maximum allowed, as well strategies for reducing leave balances that over the maximum allowed. OSHPD considers this finding resolved.

SCO Comment

Our finding remains unchanged.

We appreciate OSHPD's response regarding the actions it has taken to address the excessive leave balances. As discussed in the finding, we found that OSHPD 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. In its response, OSHPD did not dispute that it 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. The response stated, however, that OSHPD notified the employees and supervisors of their leave balances and requested them to submit leave reduction plans. This activity was not operating effectively. As stated in the finding, 33 employees exceeded the limit for vacation and annual leave. Nineteen of the 33 employees did not have leave reduction plans in place during the audit period.

**FINDING 4—
Inadequate
controls over
regular pay,
resulting in
overpayments and
questioned
payments**

OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of regular pay. We identified a total of \$5,474,825 in overpayments and questioned payments for regular pay, consisting of \$493 in overpayments and \$31,858 in questioned payments based on actual transactions examined (“known”); and \$82,939 in overpayments and \$5,359,535 in questioned payments based on the results of statistical sampling (“likely”). If not mitigated, these control deficiencies leave OSHPD at risk of making additional improper payments for regular pay.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding regular pay. Payroll records show that OSHPD processed 16,653 regular pay transactions, totaling \$117,143,934, between March 2016 and February 2019. Of the 16,653 regular pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$692,204. Of the 105 transactions, one was overpaid by \$493.

We also questioned five transactions, totaling \$31,858, because OSHPD could not provide the employees’ timesheets to support that the payments were valid and authorized. Although the State’s payroll system makes all computations and prepares the “negative” payrolls, timesheets are still required to substantiate the hours worked for regular pay.³ Without a timesheet, there is no record of hours worked and supervisory review or approval. Therefore, we could not determine the validity and authorization of payment for these regular pay transactions. As a result, we questioned these payments. These payments resulted in a total of \$32,351 in overpayments and questioned payments.

As we used a statistical sampling method to select the regular pay transactions examined, we projected the amount of likely overpayments to be \$82,939. We could also estimate that there may have been additional missing timesheets associated with regular pay, totaling \$5,359,535. As timesheets are required documents to authorize pay, we would also question these regular pay transactions. These payments resulted in a total of \$5,442,474 in likely overpayments and questioned payments. Therefore, the known and likely overpayments and questioned payments totaled \$5,474,825, consisting of \$83,432 in overpayments and \$5,391,393 in questioned payments.

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

The following table summarizes the results of our statistical sampling:

Known overpayments and questioned payments	\$ 32,351
Divide by: Sample	692,204
Error rate for projection (differences due to rounding)	<u>4.67%</u>
Population that was statistically sampled	117,143,934
Multiply by: Error rate for projection	4.67%
Known and likely overpayments and questioned payments (differences due to rounding)	5,474,825
Less: Known overpayments and questioned payments	32,351
Likely overpayments and questioned payments	<u>\$ 5,442,474</u>

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

The known overpayment occurred because payroll transactions unit staff members failed to reduce leave balances for absences in the leave accounting system. OSHPD also lacked adequate supervisory review to ensure accurate processing of regular pay.

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 OSHPD:

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

We further recommend that, to prevent improper payments for regular pay from recurring, OSHPD:

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

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

OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of overtime pay. We identified a net total of \$81,495 in improper and questioned payments for overtime, consisting of \$1,570 in known overpayments, \$1,412 in known underpayments, and \$12,338 in known questioned payments; and \$8,672 in likely overpayments, \$7,799 in likely underpayments, and \$68,126 in likely questioned payments. If

not mitigated, these control deficiencies leave OSHPD at risk of making additional improper payments for overtime.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding overtime pay. Payroll records show that OSHPD processed 584 overtime pay transactions, totaling \$690,982, between March 2016 and February 2019. All these payments were made to employees in Work Week Group 2. Of the 584 overtime pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$105,949. Of the 105 transactions, eight were overpaid by approximately \$1,570 and eight were underpaid by approximately \$1,412.

We also questioned 14 transactions, totaling \$12,338, because OSHPD could not provide the employees' timesheets to support that the payments were valid and authorized. Without the required documentation, there is no record of calculation or approval of overtime payments. Therefore, we could not determine the validity, accuracy, and propriety of these payments. As a result, we questioned these payments. These payments resulted in a net total of \$12,496 in improper and questioned payments.

As we used a statistical sampling method to select the overtime pay transactions examined, we projected the amount of likely overpayments to be \$8,672 and likely underpayments to be \$7,799. We could also estimate that there may have been additional missing timesheets associated with overtime pay, totaling \$68,126. As timesheets are required documents to authorize pay, we would also question these overtime pay transactions. These payments resulted in a net total of \$68,999 in likely improper and questioned payments. Therefore, the known and likely improper and questioned payments totaled a net of approximately \$81,495, consisting of \$10,242 in overpayments, \$9,211 in underpayments, and \$80,464 in questioned payments.

The following table summarizes the results of our statistical sampling:

Known improper and questioned payments, net	\$ 12,496
Divide by: Sample	<u>105,949</u>
Error rate for projection (differences due to rounding)	<u>11.79%</u>
Population that was statistically sampled	690,982
Multiply by: Error rate for projection	<u>11.79%</u>
Known and likely improper and questioned payments, net (differences due to rounding)	81,495
Less: Known improper and questioned payments, net	<u>12,496</u>
Likely improper and questioned payments, net	<u>\$ 68,999</u>

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

The known improper payments occurred because payroll transactions unit staff members miscalculated overtime hours worked, and paid for overtime hours that were not shown on timesheets. Furthermore, OSHPD lacked adequate supervisory review to ensure accurate processing of overtime pay.

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 OSHPD:

- Conduct a review of overtime payments made during the past three years to ensure that the payments complied with collective bargaining agreements and state laws and policies; and
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838, and properly compensate those employees who were underpaid.

We further recommend that, to prevent improper overtime payments from recurring, OSHPD:

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

FINDING 6— Inadequate controls over separation lump- sum pay, resulting in improper and late payments

OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of employee separation lump-sum pay. We identified a net total of \$55,609 in underpayments for separation lump-sum pay, consisting of \$4,430 in known overpayments and \$30,605 in known underpayments, and \$4,982 in likely overpayments and \$34,416 in likely underpayments. OSHPD also did not make separation lump-sum payments to 16 employees in a timely manner. If not mitigated, these control deficiencies leave OSHPD at risk of making additional improper and late separation lump-sum payments, noncompliance with agreements and laws, and liability for late payments.

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

Payroll records show that OSHPD processed separation lump-sum payments, totaling \$1,600,332, for 98 employees between March 2016 and February 2019. Of the 98 employees, we randomly selected a statistical sample (as described in the Appendix) of 57 employees who received separation lump-sum pay, totaling \$753,264. Of the 57 employees, eight were overpaid by approximately \$4,430 and nine were underpaid by approximately \$30,605. These payments resulted in a net total of \$26,175 in underpayments.

As we used a statistical sampling method to select the employees whose separation lump-sum payments were examined, we projected the amount of likely overpayments to be \$4,982 and likely underpayments to be \$34,416. These payments resulted in a net total of \$29,434 in underpayments. Therefore, the known and likely net underpayments totaled approximately \$55,609, consisting of \$9,412 in overpayments and \$65,021 in underpayments.

The following table summarizes the results of our statistical sampling:

Known underpayments, net	\$ 26,175
Divide by: Sample	753,264
Error rate for projection (differences due to rounding)	<u>3.47%</u>
Population that was statistically sampled	1,600,332
Multiply by: Error rate for projection	3.47%
Known and likely underpayments, net (differences due to rounding)	<u>55,609</u>
Less: Known underpayments, net	26,175
Likely underpayments, net	<u>\$ 29,434</u>

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

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

Of the 57 employees whose separation lump-sum payments we examined, 16 were not paid in a timely manner, in violation of collective bargaining agreements and state laws as summarized in CalHR's *Human Resources Manual*, section 1703.

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 OSHPD:

- Establish adequate controls to ensure accurate and timely 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 7—
Inadequate
controls over
salary advances,
resulting in failure
to recover
outstanding
amounts**

OSHPD 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. Six salary advances, totaling \$10,782, remained outstanding as of February 28, 2019, due to OSHPD's noncompliance with the State's collection policies and procedures. The oldest unrecovered salary advance was outstanding for over four years. These control deficiencies leave OSHPD at risk of failing to collect further salary advances if not mitigated.

At February 28, 2019, OSHPD's accounting records showed six outstanding salary advances, totaling \$10,782, including five balances, totaling \$10,717, which had been outstanding for more than 120 days. Generally, the prospect of collection diminishes as an account ages. When an agency does not initiate collection within three years from the date of overpayment, the possibility of collection is remote.

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

We examined the six outstanding salary advances and noted that OSHPD did not comply with the State's collection policies and procedures for any of them. OSHPD did not send collection notices.

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 OSHPD ensure that it recovers salary advances in a timely manner, pursuant to GC section 19838 and SAM sections 8776 and 8776.7. If all reasonable collection procedures do not result in payment, OSHPD may request discharge from accountability of uncollectable amounts.

**FINDING 8—
Inadequate
controls over leave
buy-back, resulting
in overpayments**

OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of leave buy-back. We identified \$17,940 in overpayments for separation lump-sum pay, consisting of \$5,990 in known overpayment and \$11,950 in likely overpayments. If not mitigated, these control deficiencies leave OSHPD at risk of making additional improper leave buy-back payments.

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.

A leave-buy back occurs when an employee receives payment at the regular salary rate in exchange for accrued vacation, annual leave,

personal leave, personal holiday, and/or holiday credits. Collective bargaining agreements between the State and Bargaining Units 1, 2, 4, 9, 10, 11, and 12 allow for the annual cash-out of a certain number of hours of accumulated vacation and annual leave if funds are available.

Title 2, California Code of Regulations, section 599.744 also provides that CalHR may authorize a leave buy-back program for employees excluded from collective bargaining. CalHR authorized leave buy-backs for excluded employees in fiscal year (FY) 2015-16, FY 2016-17, and FY 2017-18. It also provided the State's policies and procedures regarding cash-out of vacation and annual leave.

Payroll records show that OSHPD processed 181 leave buy-back transactions, totaling \$748,504, between March 2016 and February 2019. Of the 181 leave buy-back transactions, we randomly selected a statistical sample (as described in the Appendix) of 60 transactions, totaling \$249,899. Of the 60 transactions, one was overpaid by approximately \$5,990. As we used a statistical sampling method to select the leave buy-back transactions examined, we projected the amount of likely overpayments to be \$11,950. Therefore, the known and likely overpayments totaled approximately \$17,940.

The following table summarizes the results of our statistical sampling:

Known overpayment	\$ 5,990
Divide by: Sample	<u>249,899</u>
Error rate for projection (differences due to rounding)	<u>2.40%</u>
Population that was statistically sampled	748,504
Multiply by: Error rate for projection	<u>2.40%</u>
Known and likely overpayments (differences due to rounding)	17,940
Less: Known overpayment	<u>5,990</u>
Likely overpayments	<u>\$ 11,950</u>

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

The known overpayment was made because payroll transactions unit staff members failed to reduce leave balances in the leave accounting system. OSHPD also lacked adequate supervisory review to ensure accurate processing of leave buy-back.

Recommendation

We recommend that OSHPD:

- Recover the overpayment made to the employee through an agreed-upon collection method in accordance with GC section 19838; and
- To prevent improper leave buy-back payments from recurring, establish adequate internal controls, including oversight of payroll transactions unit staff, to ensure that payments for leave buy-back are accurate, and comply with collective bargaining agreements and state laws and policies.

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:

<u>Audit Area</u>	<u>Type of Test</u>	<u>Population (Unit)</u>	<u>Population (Dollar)</u>	<u>Sampling Unit</u>	<u>Sample Selection Method</u>	<u>Confidence Level</u>	<u>Tolerable Error Rate</u>	<u>Expected Error (Rate) ^a</u>	<u>Sample Size ^b</u>	<u>Results Projected to Intended Population</u>	<u>Finding Number</u>
Regular pay	Compliance	16,653	\$117,143,934	Transaction	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	4
Overtime pay	Compliance	584	690,982	Transaction	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	5
Separation lump-sum pay	Compliance	98	1,600,332	Employee	Computer-generated simple random	90%	5%	2 (1.75%)	57	Yes	6
Leave buy-back	Compliance	181	748,504	Transaction	Computer-generated simple random	90%	5%	1 (0.50%)	60	Yes	8

^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—
Office of Statewide Health Planning and Development’s
Response to Draft Audit Report**

OSHPD Office of Statewide Health Planning and Development

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October 19, 2020

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

Dear Mr. Finlayson:

This letter is in response to the State Controller's Office (SCO) audit of the Office of Statewide Health Planning and Development's (OSHPD) payroll process and transactions for the period of March 1, 2016 through February 28, 2019. OSHPD takes compliance with civil service laws and regulations very seriously and strives for continuous improvement in complying with civil service laws. Since this audit, OSHPD has taken steps to enhance efficiencies and accountability in our processes and procedures to ensure compliance. OSHPD will continue to monitor and implement changes in our payroll and transactions procedures to further our process improvements.

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

Finding #1: Inadequate segregation of duties and lack of compensating controls over payroll transactions

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

OSHPD Response: OSHPD concurs with this finding. However, OSHPD can only segregate duties to the extent allowed by allocated staffing and ensuing vacancies and/or turnover. The duties and responsibilities of the Personnel Specialist consist of processing various personnel/payroll transactions, including data entry, reconciliation, and processing of adjustments and corrections. Prior to this audit, OSHPD has

implemented controls, incorporated additional review, and improved compensating controls over these transactions. These reviews consist of a monthly review by a senior analyst of the Time and Attendance Report (Form 672) and the Transactions Manager reviewing all Employee Time Certification (Form 966), Payroll Exception Report (Form 666) and Absence Without Pay Report (Form 603). In addition, OSHPD is in the process of drafting processes and procedures for conducting these monthly reviews that will be completed by March 2021.

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

The report concluded that OSHPD lacked adequate controls to ensure that only appropriate staff had keying access to the State's payroll system. OSHPD inappropriately allowed 20 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.

OSHPD Response: OSHPD concurs with this finding. Since 2018, adequate controls have been put in place to remove employees' access in a timely manner. In addition, the Chief of Human Resources completes a periodic review of access to the SCO system in compliance with the State Decentralized Security Program Manual. OSHPD considers this finding resolved.

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

The report concluded that OSHPD 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 \$380,862 as of February 28, 2019. SCO expects the liability to increase if OSHPD does not take action to address the excessive vacation and annual leave balances.

OSHPD Response: Since 2018, OSHPD implemented a process to send memos to both the employee with excessive leave balances and their supervisors notifying them of their balances and requesting leave reduction plans be submitted to the Human Resources Services Section (HRSS) for monitoring. OSHPD also sends out an annual notification to all employees regarding the leave balance maximums and suggestions for maintaining leave balances under the maximum allowed, as well strategies for reducing leave balances that over the maximum allowed. OSHPD considers this finding resolved.

Finding #4: Inadequate controls over regular pay, resulting in overpayments and questioned payments

The report concluded that OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of regular pay. SCO identified a total of \$5,474,825 in overpayments and questioned payments for regular pay, consisting of \$493 in overpayments and \$31,858 in questioned payments based on actual transactions examined ("known"); and \$82,939 in overpayments and \$5,359,535 in questioned payments based on the results of statistical sampling ("likely"). If not mitigated, these controls deficiencies leave OSHPD at risk of making additional improper payments for regular pay.

OSHPD Response: OSHPD concurs with this finding. Since November 2019, OSHPD has implemented internal controls and an audit procedure for all regular pay, which consists of the initial processing of all timesheets, employee and supervisor contact for missing timesheets, post-keying audits by a senior payroll analyst utilizing the Leave Activity and Correction Certification (CalHR 139), and supervisor review of the post-audit keying to ensure all edits were made. The written Regular Pay and Auditing Procedures will be completed by March 2021. OSHPD will provide a corrective action plan for the recommendations to recover overpayments and a review of regular pay made during the past three years.

Finding #5: Inadequate controls over overtime pay, resulting in improper and questioned payments

The report concluded that OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of overtime pay. SCO identified a net total of \$81,495 in improper and questioned payments for overtime, consisting of \$1,570 in known overpayments, \$1,412 in known underpayments, and \$12,338 in known questioned payments; and \$8,672 in likely overpayments, \$7,799 in likely underpayments, and \$68,126 in likely questioned payments. If not mitigated, these control deficiencies leave OSHPD at risk of making additional improper payments for overtime.

OSHPD Response: OSHPD concurs with this finding and is completing a full review of the overtime under and overpayments identified in the audit to process corrections and begin the collection process where appropriate. In addition, OSHPD's HRSS is writing and implementing procedures for processing overtime payments, to include review of timesheets by the Transactions Manager, and post-keying audits performed by a senior payroll analyst. The written Overtime Pay Processing Procedures will be completed by March 2021.

Finding #6: Inadequate controls over separation lump sum pay, resulting in improper and late payments

The report concluded that OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of employee separation lump-sum pay. SCO identified a net total of \$55,609 in underpayments for separation lump-sum pay, consisting of \$4,430 in known overpayments and \$30,605 in known underpayments, and \$4,982 in likely overpayments and \$34,3416 in likely underpayments. OSHPD also did not make separation lump-sum payments to 16 employees in a timely manner. If not mitigated, these control deficiencies leave OSHPD at risk of making additional improper and late separation lump-sum payments, noncompliance with agreements and laws, and liability for late payments.

OSHPD Response: OSHPD concurs with this finding and is completing a full review of the lump-sum under and overpayments identified in the audit to process corrections and begin the collection process where appropriate. In addition, OSHPD's HRSS is writing and implementing procedures for processing lump-sum payments, to include review of calculations and PAR documentation by the Transactions Manager, and post-keying audits performed by a senior payroll analyst. The procedures will also include a document checklist to ensure all necessary calculators and substantiation are included with every lump-sum package. The written Lump-Sum Payment Procedures will be completed by March 2021.

Finding #7: Inadequate controls over salary advances, resulting in failure to recover outstanding amounts

The report concluded that OSHPD 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. Six salary advances, totaling \$10,782, remain outstanding as of February 28, 2019, due to OSHPD's noncompliance with the State's collection policies and procedures. The oldest unrecovered salary advance was outstanding for over four years. These control deficiencies leave OSHPD at risk of failing to collect further salary advances if not mitigated.

OSHPD Response: OSHPD concurs with this finding and OSHPD's HRSS and Accounting Office are working together to actively collect the overdue, eligible salary advances identified by the audit. In addition, OSHPD's HRSS is writing and implementing procedures to process and recover salary advances in a timely manner, including monthly meetings with the OSHPD Cashiering Unit within the Accounting Office to verify all salary advances are cleared, ensure appropriate documentation of the salary advance clearance, and confirm HRSS and Accounting records are in

Mr. Andrew Finlayson
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October 19, 2020

alignment. The written Salary Advance Procedures will be completed by March 2021.


Finding #8: Inadequate controls over leave buy-back, resulting in overpayments

The report concluded that OSHPD lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of leave buy-back. SCO identified \$17,940 in overpayments for separation lump-sum pay, consisting of \$5,990 in known overpayment and \$11,950 in likely overpayments. If not mitigated, these control deficiencies leave OSHPD at risk of making additional improper leave buy-back payments.

OSHPD Response: OSHPD concurs with this finding. The \$5,990 overpayment cited in Finding 8 has been corrected. OSHPD's HRSS notified the employee of the failure to properly reduce the leave balances and processed a correction in the Leave Accounting System. In addition, OSHPD's HRSS will be writing and implementing procedures for the leave buy-back payments, to include auditing of leave buy-back transactions by a senior payroll analyst after they have been keyed, and supervisor review of the transactions and audits. The written Leave Buy-Back Procedures will be completed by March 2021.

Thank you again for your time. The implementation of improved internal controls, processes, and procedures is of utmost importance to OSHPD. We anticipate that the improved process and procedures we have implemented and will continue to implement, will result in greater internal controls and savings to the state. If you have any question or need additional information, please contact Lynne Cervinka, Chief of HRSS, at (916) 326-3269 or Lynne.Cervinka@oshpd.ca.gov.

Sincerely,

 (for Marko)
ERIC T. RESLOCK (Acting Chief Deputy Director)
Marko Mijic
Acting Director

Cc: Lynne Cervinka, Chief of HRSS
Monica Erickson, Deputy Director Administrative Services

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