

SALINAS VALLEY STATE PRISON PSYCHIATRIC INPATIENT PROGRAM

Audit Report

PAYROLL AUDIT

August 1, 2015, through July 31, 2018



BETTY T. YEE
California State Controller

December 2020



BETTY T. YEE
California State Controller

December 10, 2020

Lara Saich, Acting Director
Health Care Policy and Administration
California Correctional Health Care Services
P.O. Box 588500
Elk Grove, CA 95758

Dear Ms. Saich:

The State Controller's Office audited the Salinas Valley State Prison Psychiatric Inpatient Program (SVSP-PIP) payroll process and transactions for the period of August 1, 2015, through July 31, 2018. SVSP-PIP 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 SVSP-PIP did not maintain adequate and effective internal controls over its payroll process. SVSP-PIP lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper overtime and separation lump-sum payments. SVSP-PIP also granted inappropriate keying access to the State's payroll system.

In addition, SVSP-PIP did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances. SVSP-PIP also did not collect salary advances from its employees in a timely manner.

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: Jasinda Muhammad, Deputy Director
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Audit Report

Summary

The State Controller's Office (SCO) audited the Salinas Valley State Prison Psychiatric Inpatient Program's (SVSP-PIP) payroll process and transactions for the period of August 1, 2015, through July 31, 2018. SVSP-PIP 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 June 24, 2020.

Our audit determined that SVSP-PIP did not:

- Maintain adequate and effective internal controls over its payroll process. SVSP-PIP lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper overtime and separation lump-sum payments. SVSP-PIP 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
- Collect salary advances from its employees in a timely manner.

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 PPCSD was the State's centralized payroll processing center for all payroll related-transactions. PPCSD 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:

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 SVSP-PIP:

- 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 \$111,230,954, as quantified in the Schedule.

To achieve our audit objectives, we:

- Reviewed state and SVSP-PIP policies and procedures related to the payroll process to understand SVSP-PIP's methodology for processing payroll and payroll-related transactions;
- Interviewed SVSP-PIP payroll personnel to understand SVSP-PIP's methodology for processing payroll and payroll-related transactions, determine 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 SVSP-PIP 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 SVSP-PIP:

- 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 SVSP-PIP 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 overtime payments were calculated correctly, resulting in improper payments (see Finding 4);
 - 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 5);
 - Inadequate controls to ensure that salary advances were collected in a timely manner, resulting in failure to recover outstanding amounts (see Finding 6);
- 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:

¹ In planning and performing our audit of compliance, we considered SVSP-PIP'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.

- Excessive vacation and annual leave balances with a value of at least \$230,717 as of July 31, 2018 (see Finding 3).

Although an October 20, 2020 directive from California Department of Human Resources (CalHR) 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 to 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;

- Improper payments for overtime pay (see Finding 4) and improper and late payments for employee separation lump-sum pay (see Finding 5), costing an estimated net total of \$170,746; and
- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. Seven salary advances, totaling \$3,306, remained outstanding as of July 31, 2018, due to SVSP-PIP's noncompliance with the State's collection policies and procedures (see Finding 6).

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 November 3, 2020. Lara Saich, Acting Director, responded by letter dated November 1, 2020 (Attachment), acknowledging the audit results, and indicating that SVSP-PIP 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. SVSP-PIP also provided additional information regarding Findings 1, 3, and 6. Our comments on SVSP-PIP's response to Findings 1, 3, and 6 are included in the Findings and Recommendations section. This final audit report includes SVSP-PIP's complete response.

Restricted Use

This audit report is solely for the information and use of SVSP-PIP, California Correctional Health Care Services (CCHCS), California Department of Corrections and Rehabilitation (CDCR), CalHR, 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

December 10, 2020

**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 | 14 | N/A | 14 | Employee | N/A | N/A | 2 |
| Excess vacation and annual leave | Targeted | 13 | \$ 230,717 | 13 | Employee | \$ 230,717 | \$ 230,717 | 3 |
| Overtime pay | Statistical | 6,633 | 18,359,304 | 105 | Transaction | 99,520 | 111,077 | 4 |
| Separation lump-sum pay | Statistical | 76 | 1,580,637 | 50 | Employee | 1,213,203 | 59,669 | 5 |
| Salary advance | Targeted | 25 | 109,551 | 11 | Transaction | 68,280 | 3,306 | 6 |
| Regular pay | Statistical | 11,936 | 89,593,408 | 105 | Transaction | 419,028 | - | |
| Holiday credit | Targeted | 22,465 | 1,077,262 | 3 | Transaction | 888 | - | |
| Uniform allowance | Statistical | 601 | 233,187 | 105 | Transaction | 45,593 | - | |
| Leave buy-back | Targeted | 15 | 46,888 | 15 | Employee | 46,888 | - | |
| | | | <u>\$ 111,230,954</u> | | | <u>\$ 2,124,117</u> | <u>\$ 404,769</u> | |

Findings and Recommendations

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

SVSP-PIP lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. SVSP-PIP 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 SVSP-PIP 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. SVSP-PIP failed to demonstrate that it 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 SVSP-PIP 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 6, 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 SVSP-PIP:

- 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, SVSP-PIP 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.

SVSP-PIP's Response

The Personnel Specialist (PS) duties and responsibilities consist of performing all payroll functions such as entering/reviewing transactions, reconciliation, and processing adjustments and corrections. It is not feasible to segregate the duties, since each PS is assigned a specific roster of employees. SVSP-PIP has implemented periodic review of various transactions to be completed by the Personnel Supervisor I (PS I) as a compensating control. With the implementation of the Business Information System (BIS) and Telestaff programs in April 2018, controls are in place ensuring that Timekeeper duties do not overlap with the Personnel transactions staff who key into the payroll system.

SCO Comment

Our finding remains unchanged.

We appreciate SVSP-PIP's response regarding the actions it has taken to correct the noted deficiencies. In its response, SVSP-PIP asserts the existence of compensating controls to mitigate the risk associated with the lack of adequate segregation of duties. SVSP-PIP's response also states that controls are in place to ensure that timekeeper duties do not overlap with payroll transactions unit staff. These controls, if operating effectively, will ensure that employees reflect accurate information on their timesheets. However, these controls do not mitigate the risk that errors could occur when the same payroll transactions unit staff member enters data into the system, reconciles payroll, and processes adjustments.

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

SVSP-PIP lacked adequate controls to ensure that only appropriate staff had keying access to the State's payroll system. SVSP-PIP 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 14 SVSP-PIP employees who had keying access to the State's payroll system at various times between August 2015 and July 2018. Of the 14 employees, two had inappropriate keying access to the State's payroll system. Specifically, SVSP-PIP 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, an Office Technician left SVSP-PIP on October 1, 2015, but SVSP-PIP did not request to remove the employee's access until December 1, 2015, 61 days later.

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

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

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

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

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

To prevent unauthorized use by a transferred, terminated or resigned employee's user ID, the Security Monitor must IMMEDIATELY submit all pages of the PSD125A to delete the user's system access. Using an old user ID increases the chances of a security breach which is a serious security violation. Sharing a user ID is strictly prohibited and a serious violation.

Recommendation

We recommend that SVSP-PIP:

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

SVSP-PIP failed to implement controls to ensure that it adheres to the requirements of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits. This deficiency resulted in liability for excessive leave balances with a value of at least \$230,717 as of July 31, 2018. We expect the liability to increase if SVSP-PIP 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 SVSP-PIP's leave accounting records determined that SVSP-PIP had 284 employees with unused vacation or annual leave credits at July 31, 2018. Of those employees, 13 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,195 hours in annual leave, or 1,555 hours beyond the 640-hour limit. Collectively, the 13 employees accumulated 4,457 hours of excess vacation and annual leave, with a value of at least \$230,717 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 SVSP-PIP employee separated from state service with 2,779 hours in leave credits, including 1,440 hours in vacation. After adjusting for additional leave credits, the employee should have been paid for 2,974 hours, or 7% more.

We further examined the records of the 13 employees to determine whether SVSP-PIP complied with collective bargaining agreements and state regulations. We determined that SVSP-PIP 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 SVSP-PIP had no plans in place during the audit period to reduce leave balances below the limit.

If SVSP-PIP 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

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.

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.

Although an October 20, 2020 directive from CalHR 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 to 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, SVSP-PIP:

- 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.

SVSP-PIP's Response

Furloughs and Personal Leave Program have contributed to the accumulation of annual leave and vacation credits. Staffing shortages coupled with an increase in workload do not allow for the approval of extended amounts of time off. Since transitioning to CDCR/CCHCS, SVSP-PIP has implemented a procedure for management to review annual reports and work with staff to develop a written leave balance reduction plan.

It should be noted, however, [that] effective October 26, 2020, the California Department of Human Resources suspended the leave reduction plan requirements for the duration of the 2020 Personal Leave Program (PLP) or July 1, 2022. Once suspension is lifted, SVSP-PIP will resume following existing policies and procedures to ensure its employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations, as well as conducting ongoing monitoring of controls to ensure they are implemented and operating effectively.

SCO Comment

Our finding remains unchanged. However, we added a disclosure of CalHR's October 20, 2020 directive regarding the suspension of policies regarding leave reduction. We revised our recommendation as a result of this directive.

**FINDING 4—
Inadequate
controls over
overtime pay,
resulting in
improper
payments**

SVSP-PIP 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 \$111,077 in improper overtime payments, consisting of \$913 in overpayments and \$311 in underpayments based on actual transactions examined ("known"); and \$167,552 in overpayments and \$57,077 in underpayments based on the results of statistical sampling ("likely"). If not mitigated, these control deficiencies leave SVSP-PIP at risk of making additional improper overtime payments.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding overtime pay. Payroll records show that SVSP-PIP processed 6,633 overtime pay transactions, totaling \$18,359,304, between August 2015 and July 2018. Of the 6,633 overtime pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$99,520. Of the 105 transactions, six were overpaid by approximately \$913 and four were underpaid by approximately \$311. These payments resulted in a net total of \$602 in improper payments.

As we used a statistical sampling method to select the overtime pay transactions examined, we projected the amount of likely overpayments to be \$167,552 and likely underpayments to be \$57,077. These payments resulted in a net total of \$110,475 in likely improper payments. Therefore, the known and likely improper payments totaled a net of approximately \$111,077, consisting of \$168,465 in overpayments and \$57,388 in underpayments.

The following table summarizes the results of our statistical sampling:

| | |
|--|-------------------|
| Known improper payments, net | \$ 602 |
| Divide by: Sample | <u>99,520</u> |
| Error rate for projection (differences due to rounding) | <u>0.61%</u> |
| Population that was statistically sampled | 18,359,304 |
| Multiply by: Error rate for projection | <u>0.61%</u> |
| Known and likely improper payments, net (differences due to rounding) | 111,077 |
| Less: Known improper payments, net | <u>602</u> |
| Likely improper payments, net | <u>\$ 110,475</u> |

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

The known improper payments occurred because payroll transactions unit staff members miscalculated overtime hours worked, or paid for overtime hours worked at the straight-time rate instead of the time-and-a-half rate, or vice-versa. Furthermore, SVSP-PIP 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 SVSP-PIP:

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

We further recommend that, to prevent improper payments for overtime pay from recurring, SVSP-PIP:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state laws and policies; and
- Provide adequate oversight to ensure that payroll transactions unit staff process only valid and authorized payments that comply with collective bargaining agreements and state laws and policies.

FINDING 5— Inadequate controls over separation lump- sum pay, resulting in improper and late payments

SVSP-PIP 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 \$59,669 in improper separation lump-sum payments, consisting of \$50,869 in known overpayments and \$5,071 in known underpayments; and \$15,406 in likely overpayments and \$1,535 in likely underpayments. SVSP-PIP also did not pay the separation lump-sum payments for 45 employees in a timely manner. If not mitigated, these control deficiencies leave SVSP-PIP 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 SVSP-PIP processed separation lump-sum payments, totaling \$1,580,637, for 76 employees between August 2015 and July 2018. Of the 76 employees, we randomly selected a statistical sample (as described in the Appendix) of 50 employees who received

separation lump-sum pay, totaling \$1,213,203. Of the 50 employees, 16 were overpaid by approximately \$50,869 and seven were underpaid by approximately \$5,071. These payments resulted in a net total of \$45,798 in improper payments.

As we used a statistical sampling method to select the employees whose payments for separation lump-sum pay were examined, we projected the amount of likely overpayments to be \$15,406 and likely underpayments to be \$1,535. These payments resulted in a net total of \$13,871 in improper payments. Therefore, the known and likely improper payments totaled a net of approximately \$59,669, consisting of \$66,275 in overpayments and \$6,606 in underpayments.

The following table summarizes the results of our statistical sampling:

| | |
|--|-----------|
| Known improper payments, net | \$ 45,798 |
| Divide by: Sample | 1,213,203 |
| Error rate for projection (differences due to rounding) | 3.77% |
| Population that was statistically sampled | 1,580,637 |
| Multiply by: Error rate for projection | 3.77% |
| Known and likely improper payments, net (differences due to rounding) | 59,669 |
| Less: Known improper payments, net | 45,798 |
| Likely improper payments, net | \$ 13,871 |

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

Of the 50 employees whose separation lump-sum payments we examined, 45 were not paid in a timely manner, in violation of collective bargaining agreements and state laws as summarized in the CalHR's *Human Resources Manual*, section 1703.

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

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

Recommendation

We recommend that SVSP-PIP:

- Establish adequate controls to ensure accurate calculation and timely payment of separation lump-sum pay;
- Conduct a review of separation lump-sum payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law; and
- Recover overpayments made to separated employees in accordance

with GC section 19838 and *State Administrative Manual* (SAM) section 8776.6, and properly compensate those employees who were underpaid.

**FINDING 6—
Inadequate
controls over
salary advances,
resulting in failure
to recover
outstanding
amounts**

SVSP-PIP 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. Seven salary advances, totaling \$3,306, remained outstanding as of July 31, 2018, due to SVSP-PIP's noncompliance with the State's collection policies and procedures. The oldest unrecovered salary advance was outstanding for over 10 years. These control deficiencies leave SVSP-PIP at risk of failing to collect further salary advances if not mitigated.

At July 31, 2018, SVSP-PIP's accounting records showed 25 outstanding salary advances, totaling \$109,551, including 11 balances, totaling \$68,280, which had been outstanding for more than 60 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 SVSP-PIP to collect salary advances in a timely manner and maintain proper records of collection efforts.

We examined the 11 salary advances that had been outstanding for more than 60 days. Based on this examination, we noted that SVSP-PIP did not comply with the State's collection policies and procedures for seven of them, totaling \$3,306. SVSP-PIP did not send collection notices promptly, or did not send the notices at all. For example, SVSP-PIP issued a salary advance to an employee in November 2013 and sent the first collection letter in August 2014, about eight months later.

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 SVSP-PIP 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, SVSP-PIP may request discharge from accountability of uncollectable amounts.

SVSP-PIP's Response

SVSP-PIP makes a concerted effort to clear all salary advances in a timely manner. Since the implementation of BIS in April 2018, all salary advances are tracked in the BIS system and overseen by the Salary Advance/Aging Report (SA/AR) Unit, as well the Accounting Services Branch. The SA/AR Unit distributes a monthly report that is reviewed and monitored by SVSP-PIP Personnel Supervisors on a monthly basis.

While SVSP-PIP strives to expeditiously and diligently clear salary advances, staffing turnover periodically impacts the effectiveness of our efforts, causing unplanned delays in notification and/or recovery of outstanding accounts.

With regards to the seven outstanding salary advances identified in the findings, five of the lump sums were issued to employees that separated from state civil service prior to this audit period. Once an employee separates from state service, the responsibility to collect shifts from the local Personnel Office to the departmental Accounting Office, which would have been DSH Administrative Services/Accounting in this case.

SCO Comment

Our finding remains unchanged.

We appreciate SVSP-PIP's response regarding the actions it has taken to correct the noted deficiencies. In its response, SVSP-PIP asserts that the responsibility to collect salary advances from employees who separated from state service shifts from the personnel office to the departmental accounting office. This assertion contradicts SVSP-PIP's own policy regarding salary advances. Section 711 of CDCR's *Personnel Operations Manual* states that "It is the Personnel Specialist's responsibility to monitor pending pay and to clear all outstanding salary advances in a timely manner."

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 | 11,936 | \$89,593,408 | Transaction | Computer-generated simple random | 90% | 5.0% | 2 (1.75%) | 105 | Yes | |
| Overtime pay | Compliance | 6,633 | 18,359,304 | Transaction | Computer-generated simple random | 90% | 5.0% | 2 (1.75%) | 105 | Yes | 4 |
| Separation lump-sum pay | Compliance | 76 | 1,580,637 | Employee | Computer-generated simple random | 95% | 5.5% | 2 (2.00%) | 50 | Yes | 5 |
| Uniform allowance | Compliance | 601 | 233,187 | Transaction | Computer-generated simple random | 90% | 5.0% | 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 less than 250 items, we determined the sample size using a calculator that utilizes a hypergeometric distribution. For populations of 250 items and above, we determined the sample size using a calculator that utilizes 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—
Salinas Valley State Prison Psychiatric Inpatient Program's
Response to Draft Audit Report**

November 13, 2020

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
SCO, Division of Audits
Post Office 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 November 3, 2020, regarding the audit conducted on the Salinas Valley Psychiatric Inpatient Program payroll process and transactions for the period of August 1, 2015, through July 31, 2018. It should be noted on July 1, 2017, which is during the middle of this audit period, the Psychiatric Inpatient Program (PIP) operations at Salinas Valley State Prison (SVSP) transitioned from the Department of State Hospitals (DSH) to CCHCS/Division of Health Care Services (DHCS), California Department of Corrections and Rehabilitation (CDCR) and will hereafter be referred to as SVSP-PIP.



SVSP-PIP understands the seriousness of ensuring effective payroll processes are in place, and is committed to continually improving these processes. This commitment is demonstrated by enhanced quality controls implemented since the audit period. SVSP-PIP believes significant improvements have been made by implementing policy and procedural changes, staff training and ongoing process evaluation. The following is in response to each of the findings and recommendations contained in this report:

Findings 1: Inadequate segregation of duties and a lack of compensating controls over payroll transactions

Response: The Personnel Specialist (PS) duties and responsibilities consist of performing all payroll functions such as entering/reviewing transactions, reconciliation, and processing adjustments and corrections. It is not feasible to segregate the duties, since each PS is assigned a specific roster of employees. SVSP-PIP has implemented periodic review of various transactions to be completed by the Personnel Supervisor I (PS I) as a compensating control. With the implementation of the Business Information System (BIS) and Telestaff programs in April 2018, controls are in place ensuring that Timekeeper duties do not overlap with the Personnel transactions staff who key into the payroll system.

Findings 2: Inappropriate keying access to the state payroll system.

Response: SCO identified two employee with keying access not immediately removed after their separation, transfer, or change in classification. Agencies now have the ability to email the Decentralized Security Administrator (DSA) any notifications to remove users and submit required documents via secured email, which vastly improves efficiency. Since the review, SVSP-PIP has implemented the process of emailing the DSA any changes to ensure compliance with the one day expectation. The Human Resources PS I and/or manager conducts periodic reviews to ensure compliance.



Mr. Andrew Finlayson, Chief
November 12, 2020
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Findings 3: Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances

Response: Furloughs and Personal Leave Program have contributed to the accumulation of annual leave and vacation credits. Staffing shortages coupled with an increase in workload do not allow for the approval of extended amounts of time off. Since transitioning to CDCR/CCHCS, SVSP-PIP has implemented a procedure for management to review annual reports and work with staff to develop a written leave balance reduction plan.

It should be noted, however, effective October 26, 2020, the California Department of Human Resources suspended the leave reduction plan requirements for the duration of the 2020 Personal Leave Program (PLP) or July 1, 2022. Once suspension is lifted, SVSP-PIP will resume following existing policies and procedures to ensure its employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations, as well as conducting ongoing monitoring of controls to ensure they are implemented and operating effectively.



Findings 4: Inadequate controls over overtime pay, resulting in improper payments.

Response: SVSP-PIP has implemented oversight controls to prevent improper overtime payments. The PS I analyzes and reviews a selection of timesheets to ensure compliance and provide daily monitoring of pay issued in the state payroll system. Also, overtime rates are calculated through the BIS, which is responsible for the calculation and downloading of overtime electronically to the SCO system. SVSP-PIP continues to focus on training, which is provided on a continual basis in an effort to reduce errors.

Findings 5: Inadequate controls over separation lump-sum pay, resulting in improper and late payments.

Response: SVSP-PIP has implemented oversight controls, which require review and approval of all lump-sum calculations by the PS I prior to separating the employee. The PS I will also continue to provide training to transactions staff.

Findings 6: Inadequate controls over salary advances, resulting in failure to recover outstanding amounts.

Response: SVSP-PIP makes a concerted effort to clear all salary advances in a timely manner. Since the implementation of BIS in April 2018, all salary advances are tracked in the BIS system and overseen by the Salary Advance/Aging Report (SA/AR) Unit, as well the Accounting Services Branch. The SA/AR Unit distributes a monthly report that is reviewed and monitored by SVSP-PIP Personnel Supervisors on a monthly basis. While SVSP-PIP strives to expeditiously and diligently clear salary advances, staffing turnover periodically impacts the effectiveness of our efforts, causing unplanned delays in notification and/or recovery of outstanding accounts.


With regards to the seven outstanding salary advances identified in the findings, five of the lump sums were issued to employees that separated from state civil service prior to this audit period.

Mr. Andrew Finlayson, Chief
November 12, 2020
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Once an employee separates from state service, the responsibility to collect shifts from the local Personnel Office to the departmental Accounting Office, which would have been DSH Administrative Services/Accounting in this case.

SVSP-PIP places importance on the quality work of the HR office and is continually striving for improvement. SVSP-PIP welcomes insights provided by the auditors and would like to thank SCO for its work on this report. Should you have any questions, please contact Cecilia Rodriguez, Personnel Officer, Human Resources, SVSP-PIP at (831) 678-5664 or at Cecilia.Rodriguez@cdcr.ca.gov.

Sincerely,

DocuSigned by:


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Lara Saich, Director (A)
Health Care Policy & Administration
California Correctional Health Care Services



cc: Jasinda Muhammad, Deputy Director, HR, CCHCS
Laura Harvick, Assistant Deputy Director, Field Operations & Activation Support,
HR, CCHCS
Olivia Briones, Regional Personnel Administrator – Central, HR, CCHCS
Cecilia Rodriguez, Personnel Officer, SVSP-PIP

**State Controller's Office
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