DEPARTMENT OF INDUSTRIAL RELATIONS

Audit Report

PAYROLL AUDIT

March 1, 2016, through February 28, 2019

BETTY T. YEE
California State Controller

December 2020

BETTY T. YEE
California State Controller

December 10, 2020

Katrina S. Hagen, Director
Department of Industrial Relations
455 Golden Gate Avenue
San Francisco, CA 94102

Dear Ms. Hagen:

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

In addition, DIR did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances. DIR 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: Andrew Collada, Chief, Division of Administration
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Audit Report

Summary

The State Controller's Office (SCO) audited the Department of Industrial Relations' (DIR) payroll process and transactions for the period of March 1, 2016, through February 28, 2019. DIR 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 15, 2020.

Our audit determined that DIR did not:

- Maintain adequate and effective internal controls over its payroll process. DIR lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper regular, overtime, and separation lump-sum payments. DIR 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.

<u>Audit Authority</u>

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 DIR:

- 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 March 1, 2016, through February 28, 2019.

The audit population consisted of payroll transactions totaling $661,344,713, as quantified in the Schedule.

To achieve our audit objectives, we:

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

- 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 DIR 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 approved and calculated correctly, resulting in improper 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);
- 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

[1] In planning and performing our audit of compliance, we considered DIR'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.

of collective bargaining agreements and state laws, regulations, policies, and procedures:

- Excessive vacation and annual leave balances with a value of at least $8,868,422 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 payments made for overtime pay (see Finding 5); and improper and late payments made for separation lump-sum pay (see Finding 6), costing an estimated net total of $24,298,151; and

- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. Eighteen salary advances, totaling $60,683, remained outstanding as of February 28, 2019, due to DIR'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 November 2, 2020. Katrina S. Hagen, Director responded by letter dated November 12, 2020 (Attachment), agreeing with the audit results, and indicating that DIR has taken steps to correct the noted deficiencies. This final audit report includes DIR's response.

Restricted Use

This audit report is solely for the information and use of DIR 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
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	58	N/A	58	Employee	N/A	N/A	2
Excess vacation and annual leave	Statistical	412	$ 8,868,422	105	Employee	$ 2,151,767	$ 8,868,422	3
Regular pay	Statistical	100,284	636,344,043	105	Transaction	690,077	24,285,681	4
Overtime pay	Statistical	3,488	3,010,813	105	Transaction	83,705	3,460	5
Separation lump-sum pay	Statistical	550	9,318,863	105	Employee	2,069,180	9,010	6
Salary advance	Targeted	19	69,946	19	Transaction	69,946	60,683	7
Leave buy-back	Statistical	1,098	3,732,626	105	Transaction	352,724	-	
			$ 661,344,713			$ 5,417,399	$ 33,227,256	

Findings and Recommendations

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

DIR lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. DIR 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 DIR 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. DIR 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 DIR 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 7, 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 DIR:

- 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, DIR should implement compensating controls. For example, if the payroll transactions unit staff member responsible for recordkeeping also performs a reconciliation process, then the supervisor should perform and document a detailed review of the reconciliation to provide additional control over the assignment of conflicting functions. Compensating controls may also include dual authorization requirements and documented reviews of payroll system input and output; and

- Develop formal procedures for performing and documenting compensating controls.

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

DIR lacked adequate controls to ensure that only appropriate staff had keying access to the State's payroll system. DIR inappropriately allowed 18 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 58 DIR employees who had keying access to the State's payroll system at various times between March 2016 and February 2019. Of the 58 employees, 18 had inappropriate keying access to the State's payroll system. Specifically, DIR did not immediately remove or modify keying access after the employees' separation from state service, transfer to another agency, or change in classification. A Personnel Supervisor II separated from DIR on May 31, 2017. DIR did not request to remove the employee's access until September 22, 2017 (114 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. **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 DIR:

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

DIR 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 $8,868,422, consisting of $2,151,767 based on actual transactions examined ("known"), and $6,716,655 based on the results of statistical sampling ("likely"). We expect the liability to increase if DIR 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 DIR's leave accounting records determined that DIR had 2,677 employees with unused vacation or annual leave credits at February 28, 2019. Of the 2,677 employees, 412 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,576 hours in annual leave, or 1,936 hours beyond the 640-hour limit. Collectively, the 412 employees accumulated 164,698 hours of excess vacation and annual leave, with a value of at least $8,868,422 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 DIR employee separated from state service with 2,226 hours of leave credits, including 1,506 hours of vacation. After adjusting for additional leave credits, the employee was paid for 2,558 hours, or 15% more.

Of the 412 employees, we randomly selected a statistical sample (as described in the Appendix) of 105 employees with excess vacation and leave balances valued at $2,151,767, for further examination. We determined that DIR could not demonstrate that it had complied with collective bargaining agreements and state regulations when allowing the 105 employees to maintain excess vacation or annual leave balances. We also determined that DIR did not have plans in place during the audit period to reduce the employees' leave balances below the limit.

As we used a statistical sampling method to select the employees with excess vacation and annual leave that we examined, we projected the value of likely excess vacation and annual leave balances to be $6,716,655. Therefore, the known and likely value of excess vacation and annual leave balances totaled $8,868,422.

The following table summarizes the results of our statistical sampling:

Known excess vacation and annual leave balances	$ 2,151,767
Divide by: Sample	2,151,767
Error rate for projection (differences due to rounding)	100.00%
Population that was statistically sampled	8,868,422
Multiply by: Error rate for projection	100.00%
Known and likely excess vacation and annual leave balances (differences due to rounding)	8,868,422
Less: Known excess vacation and annual leave balances	2,151,767
Likely excess vacation and annual leave balances	$ 6,716,655

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

If DIR 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 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, DIR:

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

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

DIR 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 $24,285,681 in overpayments and questioned payments for regular pay, consisting of $2,935 in known overpayments and $23,401 in known questioned payments, and $2,704,030 in likely overpayments and $21,555,315 in likely questioned payments. If not mitigated, these control deficiencies leave DIR 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 DIR processed 100,284 regular pay transactions, totaling $636,344,043, between March 2016 and February 2019. Of the 100,284 regular pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling $690,077. Of the 105 transactions, six were overpaid by $2,935.

We also questioned five transactions, totaling $23,401, because DIR 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. The known overpayments and known questioned payments represent a total of $26,336.

As we used a statistical sampling method to select the regular pay transactions examined, we projected the amount of likely overpayments to be $2,704,030. We could also estimate that there may have been additional missing timesheets associated with regular pay, totaling $21,555,315. As timesheets are required documents to authorize pay, we would also question these regular pay transactions. The likely overpayments and likely questioned payments represent a total of $24,259,345. Therefore, the known and likely overpayments and questioned payments totaled $24,285,681, consisting of $2,706,965 in overpayments and $21,578,716 in questioned payments.

The following table summarizes the results of our statistical sampling:

Known overpayments and questioned payments	$ 26,336
Divide by: Sample	690,077
Error rate for projection (differences due to rounding)	3.82%
Population that was statistically sampled	636,344,043
Multiply by: Error rate for projection	3.82%
Known and likely overpayments and questioned payments (differences due to rounding)	24,285,681
Less: Known overpayments and questioned payments	26,336
Likely overpayments and questioned payments	$ 24,259,345

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

The known overpayments occurred because payroll transactions unit staff members failed to reduce, or incorrectly recorded reductions in, leave balances for absences in the leave accounting system. DIR 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.

<u>Recommendation</u>

We recommend that DIR:

- 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

[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."

- 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, DIR:

- 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 payments

DIR 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 $3,460 in improper overtime payments, consisting of $606 in known overpayments and $510 in known underpayments, and $21,179 in likely overpayments and $17,815 in likely underpayments. If not mitigated, these control deficiencies leave DIR 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 DIR processed 3,488 overtime pay transactions, totaling $3,010,813, between March 2016 and February 2019. Of the 3,488 overtime pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling $83,705. Of the 105 transactions, six were overpaid by approximately $606 and eight were underpaid by approximately $510. These payments resulted in a net total of $96 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 $21,179 and likely underpayments to be $17,815. These payments resulted in a net total of $3,364 in likely improper payments. Therefore, the known and likely improper payments totaled a net of approximately $3,460, consisting of $21,785 in overpayments and $18,325 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	$	96
Divide by: Sample		83,705
Error rate for projection (differences due to rounding)		0.11%
Population that was statistically sampled		3,010,813
Multiply by: Error rate for projection		0.11%
Known and likely improper payments, net (differences due to rounding)		3,460
Less: Known improper payments, net		96
Likely improper payments, net	$	3,364

* 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 claimed that lacked the required management approval. Furthermore, DIR 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.

<u>Recommendation</u>

We recommend that DIR:

- 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, DIR:

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

DIR 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 $9,010 in improper separation lump-sum payments, consisting of $6,552 in known overpayments and $4,551 in known underpayments, and $22,954 in likely overpayments and $15,945 in likely underpayments. We also found that DIR did not make separation lump-sum payments to 32 employees in a timely manner. If not mitigated, these control deficiencies leave DIR 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 DIR processed separation lump-sum payments, totaling $9,318,863, for 550 employees between March 2016 and February 2019. Of the 550 employees, we randomly selected a statistical sample (as described in the Appendix) of 105 employees who received separation lump-sum pay, totaling $2,069,180. Of the 105 employees, five were overpaid by approximately $6,552 and eight were underpaid by approximately $4,551. These payments resulted in a net total of $2,001 in improper payments.

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 $22,954 and likely underpayments to be $15,945. These payments resulted in a net total of $7,009 in improper payments. Therefore, the known and likely net improper payments totaled approximately $9,010, consisting of $29,506 in overpayments and $20,496 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	$ 2,001
Divide by: Sample	2,069,180
Error rate for projection (differences due to rounding)	0.10%
Population that was statistically sampled	9,318,863
Multiply by: Error rate for projection	0.10%
Known and likely improper payments, net (differences due to rounding)	9,010
Less: Known improper payments, net	2,001
Likely improper payments, net	$ 7,009

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

Of the 105 employees whose separation lump-sum payments we examined, 32 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.

The known improper payments were made because payroll transactions unit staff members miscalculated leave balances paid for separation lump-sum pay. DIR 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 DIR:

- 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

DIR 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. Eighteen salary advances, totaling $60,683, remained outstanding as of February 28, 2019, due to DIR's noncompliance with the State's collection policies and procedures. The oldest unrecovered salary advance was outstanding for over seven months. These control deficiencies leave DIR at risk of failing to collect further salary advances if not mitigated.

At February 28, 2019, DIR's accounting records showed 19 outstanding salary advances, totaling $69,946, including 13 balances, totaling $49,552 that had been outstanding for more than 120 days. Generally, the prospect of collection diminishes as an account ages. When an agency does not initiate collection within three years from the date of overpayment, the possibility of collection is remote.

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

We examined the 19 outstanding salary advances and noted that DIR did not comply with the State's collection policies and procedures for 18 outstanding salary advances, totaling $60,683. DIR 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 DIR 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, DIR may request discharge from accountability of uncollectable amounts.

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 high 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
Excess vacation and annual leave	Compliance	412	$8,868,422	Employee	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	3
Regular pay	Compliance	100,284	636,344,043	Transaction	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	4
Overtime pay	Compliance	3,488	3,010,813	Transaction	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	5
Separation lump-sum pay	Compliance	550	9,318,863	Employee	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	6
Leave buy-back	Compliance	1,098	3,732,626	Transaction	Computer-generated simple random	90%	5%	1 (0.50%)	105	Yes	

[a] Pursuant to the AICPA's Audit Guide: Audit Sampling (May 1, 2017 edition), pages 131-133, the expected error is the expected number of errors planned for in the sample. It is derived by multiplying the expected error rate by the sample size. The expected number of errors in the sampling tables on pages 135-136 was rounded upward, e.g., 0.2 errors becomes 1.0 error.

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

Attachment—
Department of Industrial Relations' Response to Draft Audit Report

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

DEPARTMENT OF INDUSTRIAL RELATIONS
Office of the Director

Katrina S. Hagen
Director
1515 Clay Street, 17th Floor
Oakland, CA 94612
Tel: (510) 286-7087 Fax: (510) 622-3265

November 12, 2020

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

Dear Mr. Finlayson:

The California Department of Industrial Relations (DIR) appreciates the opportunity to comment and provide corrective actions for the recommendations outlined in the State Controller's Office (SCO) Audit Report titled, *Payroll Audit.*

Finding 1 – Inadequate Segregation of Duties and Lack of Compensating Controls Over Payroll Transactions

DIR concurs with this finding.

While DIR is unable to fully segregate payroll functions, DIR is implementing compensating controls to have Transaction Unit supervisors perform detailed reviews of the recordkeeping performed by Transactions Unit personnel specialists. Transaction Unit supervisors are required to document the reviews performed to provide a record for subsequent audits/reviews by SCO or other audit agencies.

Personnel specialists will receive additional training to reinforce the issues identified by SCO specific to regular, overtime and lump sum pay. Supervisors will perform monitoring each month when master payroll is being reconciled and overtime is being calculated by personnel specialists. All lump sum calculations performed by personnel specialists will be reviewed and approved by their respective supervisors.

Finding 2 – Inappropriate Keying Access to the State's Payroll System

DIR concurs with this finding.

Human Resources (HR) has implemented changes to provide the necessary controls over Transaction Unit personnel specialists to ensure that only those personnel specialists who are approved for keying into the SCO payroll system have the necessary access.

HR will immediately update keying access to the State's payroll system after any personnel specialists separate from DIR, transfer to another unit or change position that no longer requires this access.

HR will review the PSD 125A (SCO Database Access Listing) quarterly (March, June, September, and December) to ensure staff listed have the proper access to the SCO database and verify that the names and access for each name listed complies with the Decentralized Security Program Manual. DIR will determine who should or should not have access and notify SCO accordingly.

Finding 3 – Inadequate Controls over Vacation and Annual Leave Balances

DIR concurs with this finding.

In December 2019 all DIR employees were required to submit Annual Leave/Vacation Leave Reduction Plans if they exceeded the 640 hour limit or if they would reach or exceed that limit during calendar year 2020. **(Attachment 1)**

Managers, supervisors and personnel liaisons were provided with Leave Benefit Over Max Reports from SCO in mid-January 2020 identifying all employees who were required to submit a leave usage/reduction plan.

This will be an annual process with a leave reduction plan memorandum sent annually each December to DIR employees, managers and supervisors requiring the submission of leave reduction plans to the HR Office by the end of January.

As recommended by SCO, DIR will also annually evaluate the ability to participate in leave buy-backs.

As you are likely aware, the California Department of Human Resources has temporarily removed the 640 hour limit on state employee leave balances to ensure employees can accrue additional hours resulting from the Paid Leave Program for 2020-21. As such, DIR will not utilize the annual process described above for calendar year 2021.

Finding 4 – Inadequate Controls over Regular Pay

DIR concurs with this finding.

DIR implemented timesheet audit procedures for personnel specialists beginning with July 2020 timesheets **(Attachment 2)** and provided training on July 27, 2020.

The new procedures will ensure monthly peer audits of employee timesheets to verify:

- Accurate processing of employee leave usage
- Issuance of the correct regular pay for DIR employees

The Timesheet Processing, Auditing and Filing procedures have been revised to include quarterly reviews conducted by each personnel specialist's immediate supervisor by randomly selecting unit timesheets on a quarterly basis, review of the leave that was processed to ensure the correct leave was deducted for the particular pay period based on the employee's timesheet for that unit. After verification of correct leave balances, the supervisor will initial and date the unit's 672 to acknowledge the review and document it was processed correctly.

As recommended by SCO, DIR will conduct a review of payments for regular pay made during the last three calendar years (2018, 2019 and 2020) to ensure that the payments complied with collective bargaining agreements, applicable state laws, and policies. This review will begin during the first quarter of 2021.

Additionally HR will ensure payments are accurately made and comply with applicable collective bargaining unit agreements, state laws and policies.

Personnel specialists will receive training to ensure they are current on requirements for payroll transactions.

Finding 5 – Inadequate Controls over Overtime Pay

DIR concurs with this finding.

As recommended by SCO, DIR will conduct a review of overtime payments made during the last three calendar years (2018, 2019 and 2020) to ensure that the payments complied with collective bargaining agreements and applicable state laws and policies. This review will begin during the first quarter of 2021. Identified overpayments will be collected. Any employees who were underpaid will be compensated.

HR will ensure payments are accurately made and comply with applicable collective bargaining unit agreements, state laws and policies.

Personnel specialists will receive training to ensure they are current on requirements for payroll transactions.

Finding 6 – Inadequate Controls over Separation Lump-Sum Pay

DIR concurs with this finding.

As recommended by SCO DIR will implement controls to ensure accurate and timely separation lump-sum payments and will conduct a review of the last three calendar years (2018, 2019 and 2020) to ensure that lump-sum payments were accurately calculated and complied with collective bargaining agreements and applicable state laws and policies. This review will begin during the first quarter of 2021. DIR will review all lump sum payments to identify any overpayments and/or underpayments to ensure DIR employees were properly compensated.

Finding 7 – Inadequate Controls over Salary Advances

DIR concurs with this finding.

In October 2019, subsequent to the completion of SCO's fieldwork and prior to receipt of the SCO audit report, DIR implemented new forms and processes to strengthen controls over salary advances. These controls will help to minimize the risks associated with providing salary advances. They will also help ensure state collection policies and procedures are in place to collect salary advances in a timely manner as required by Government Code section 19838 and State Administrative Manual sections 8776 and 8776.7.

With respect to the 19 Salary Advance Determinations (SAD) identified in the report, six have been cleared since February 28, 2019. HR continues to resolve the remaining 13; current and former DIR employees are being noticed on the outstanding salary advance amounts.

Attached **(Attachment 3)** is a copy of the salary advance overpayment notice that will be completed and sent out to current and former DIR employees who currently have outstanding salary advances that need to be cleared. If there is no response to the notices:

<u>Current DIR employees:</u>

- Collection will be from current monthly payroll, up to a maximum of 25 percent of the employee's disposable income.

Separated from DIR, current state employee at another state agency:

- Contact the personnel specialist at the current state agency, inform them of the employee's current outstanding salary advance. Work with the other state agency on collection from each pay period until the outstanding salary advance is cleared.

Separated from DIR and state service:

- Send the required three collection notices to the employee (30, 60, 90 day periods). If the separated employees agree to pay then the collections will be made. If the separated employees do not respond after the third notice, HR will inform DIR Accounting Office for their role in the collection process. The Accounting Office would request Franchise Tax Board to withhold potential income tax refunds to offset the outstanding salary advance.

Also attached **(Attachment 4)** is the Salary Advance Repayment Authorization form. The form is to be completed by the personnel specialist and be sent along with the salary advance to the employee. If the salary advance is being sent to the employee from DIR's Accounting Office, the Accounting staff member sending out the salary advance to the employee will sign on the witness line, keep a copy for record and send out along with salary advance. When the employee receives the salary advance, they must sign the repayment authorization and return it to HR. If the subsequent warrant issues and is insufficient to clear the SAD, the signed repayment authorization form allows HR to collect from future warrants that issue from SCO to clear the outstanding SAD.

Tracking Salary Advances:

Personnel specialists will be required to log the salary advances that they have requested on the Outstanding Salary Advance Listing. This listing will be kept on the Personnel Specialist Share Drive, and everyone in the Transactions Unit has access to the listing. As payments are made towards the outstanding salary advance, the personnel specialists will need to notate and update the listing.

The personnel supervisors will periodically check the listing and follow up with the personnel specialists to make sure the outstanding salary advance listing is updated and warrants that have issued have been applied to clear the salary advances.

DIR is utilizing these new processes to ensure salary advances are collected timely. DIR will utilize these procedures as remaining outstanding salary advances are examined for proper disposition; collection or discharge.

If you have any questions regarding DIR's comments and/or corrective actions, please contact myself or Andrew Collada, Deputy Director Administration at acollada@dir.ca.gov. Thank you for your considered audit with the goal of ensuring DIR Compliance.

Sincerely,

Katrina S. Hagen

Katrina S. Hagen
Director

Attachments

cc: Andrew Collada, Chief
Division of Administration

David Botelho, Acting Chief
Human Resources Office

Derek Eslao, Personnel Supervisor II
Human Resources Office

Jennifer Simunich, Personnel Supervisor II
Human Resources Office

ATTACHMENT 1

Finding 3 – Inadequate Controls over Vacation and Annual Leave Balances

1. Memorandum to all DIR employees.
2. Leave Balance Calculator

State of California
Department of Industrial Relations

Human Resources
Memorandum

Date: December 24, 2019

To: All DIR Employees with Excess Leave Balances
All Supervisors and Managers
All Division Chiefs

From: David Botelho
Acting Chief of Human Resources

Subject: Vacation/Annual Leave Reduction Plan

In an effort to encourage a healthy work-life balance and to ensure compliance with leave balance maximum caps, Human Resources is requiring employees near or above the 640 maximum vacation/annual leave balance to prepare a plan that will reduce their balances.

Managers, supervisors, and Personnel Liaisons will each receive a report identifying all employees who will be required to submit a leave usage/reduction plan. Managers and supervisors are to submit these leave reduction plans to Human Resources by January 31, 2020.

CalHR provides a Leave Reduction Calculator on their website to facilitate the preparation of a plan (https://www.calhr.ca.gov/PML%20Library/2016029.pdf#search=excess%20leave%20balance).

For represented employees, vacation/annual leave maximums are identified in the applicable Memorandum of Understanding (MOU). For employees excluded from bargaining, vacation/annual leave maximums are identified in the California Code of Regulations, title 2, section 599.738, and 599.752.

If you have additional questions, please contact your assigned Human Resources Personnel Specialist.

Thank you.

Leave Balance Calculator and Plan Generator

Employee Name :	Derek Eslao		
Department :	Industrial Relations		
Division Unit :	Human Resources	**Effective Date :**	02/01/2020
Current AL/VA Leave Balance :	580	**Allowed Cap:**	640
Monthly AL/VA Accrual Rate :	17	**Projected Monthly Accrual Rate :**	204
Projected 12 Month Leave Balance :	784	**AL/VA Balance After Leave Use :**	528
Leave Reduction Goal (hours) :	160		
AL/VA Over Cap Balance :	144	**Outstanding AL/VA Over Cap :**	0
PLP (2010-2012)/ Furlough / Other Balance :	0	**Outstanding PLP (2010-2012)/ Furlough / Other Balance :**	0

Month/Year	Al/VA Hours to Use	PLP (2010-2012)/ Furlough/ Other Hours to Use	Month/Year	Al/VA Hours to Use	PLP (2010-2012)/ Furlough/ Other Hours to Use
February 2020	24		August 2020	16	
March 2020	24		September 2020	8	
April 2020	16		October 2020	8	
May 2020	40		November 2020	16	
June 2020	32		December 2020	32	
July 2020	24		January 2021	16	

Employee Name :		**Date :**	

Plan Approved ☐ **Yes** ☐ **No**

Supervisor Signature :		**Date :**	

ATTACHMENT 2

Finding 4 – Inadequate Controls over Regular Pay

1. Approving Timesheets Process
2. Leave Activity and Correction Certification

Approving Timesheets

Timesheets should be submitted to the Transactions unit by the 4th working day. The Transactions unit will be closed the 5th working day of each pay period to process timesheets.

In order to quickly confirm you have all required timesheets they should be put in the same order as your 672's as you receive them. As you are checking in your timesheets flag any employees that are on the 672s and missing timesheets.

The Personnel Specialist should verify the following information is correct on the timesheet for the pay period.

Sections that must be reviewed

- Employees Position Number
- Employees on an Alternate Work Week Schedule
  - Working the correct days and hours for the week and pay period
  - Not working on RDO's
  - Accrued the correct amount of Excess or Holiday Credit as applicable.
  - Charged the correct amount of Deficit hours as applicable
- Weekly totals are accurate based on time-based and work week group
- Time Worked for the pay period meets the employee's minimum required hours for their time base. For example Fulltime employees must meet 168 or 176 hours depending on the pay period.
- If the employee has Dock, ensure they were paid appropriately and that the pay period is qualifying.
  - If the employee is enrolled in the Voluntary Personal Leave Program and have late dock their accrual will need to be manually adjusted in CLAS.
  - With PLP/Furlough 2020, ensure if they are due additional pay for being over docked, you check to make sure they are receiving the correct PLP/Furlough hours for the pay period. Make corrections as needed and manually adjust the leave in CLAS.

Leave that requires comments

- Bereavement Leave
- Sick Leave Family
- Administrative Time Off

Leave that requires attachments for substantiation

- Dock Report
- Military Leave
- Jury duty
- Overtime
  - If the employee went over the required hours, verify overtime and STD. 682 match. The STD. 682 must have the following sections completed before being processed.

- Employee Name
- Position Number
- Organization/Unit
- Work Week Group
- Date
- From and To times
- Total hours Authorized
- Compensation Level, Paid Time or Compensating time off.
- Extra Hours Worked
- Total Hours
- Reason
- Authorized Signature and Date
- Employee Signature and Date
- Approved Signature and Date

Verifying Leave and Keying in CLAS

Using your 672's begin to key the leave used on the STD. 634 for each employee in CLAS.

Key each leave type on the timesheet in CLAS using the appropriate usage and accrual codes in CLAS

If the timesheet does not need any corrections, put an "A" for approved next to their name on the 672's and move to the next timesheet.

Amendments

If the timesheet needs to be amended for leave usage, make the corrections on the timesheet and make the entries into CLAS.

- If the employee does not have enough of the elected leave balance on their timesheet use the leave table below to determine the next leave balance to use.
- Key changes in to leave balances in CLAS
    - Note: If the employee wants to use a different leave type you will need to make that correction in CLAS and on the timesheet.
- After you have made amendments to the timesheets, notify the employee of the leave usage changes, noting why other leave was used and the amount.

Insufficient Leave	Leave to be used in this order
Professional Development Day (PDD)	PDD, PLP 2012, Furlough, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, PLP, Excess, Dock
Sick	May only substitute with other leave credits with
Vacation/Annual Leave (AL)	PDD, PLP 2012, Furlough, PLP 2020, Holiday, CTO, PH, PLP, Excess, Dock
Holiday Credit Leave (HC)	PDD, PLP 2012, Furlough, PLP 2020, CTO, Vacation/Annual Leave, PH, PLP, Excess, Dock
Personal Holiday	PDD, PLP 2012, Furlough, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PLP, Excess, Dock
Personal Leave Program (PLP)	PDD, PLP 2010-2012, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, Excess, Dock
PLP 2010	PDD, PLP 2012, Furlough, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, PLP, Excess, Dock
PLP 2012	PDD, PLP 2010, Furlough, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, PLP, Excess, Dock
PLP 2020	PDD, PLP 2010-2012, Furlough, Holiday, CTO, Vacation/Annual Leave. PH. PLP. Excess. Dock
Compensating Time Off	PDD, PLP 2012, Furlough, PLP 2020, Holiday, Vacation/Annual Leave, PH, PLP, Excess, Dock
Furlough	PDD, PLP 2012, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, PLP, Excess, Dock
Excess	PDD, PLP 2012, Furlough, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, PLP, Dock
Holiday Informal	PDD, PLP 2012, Furlough, PLP 2020, Holiday, CTO, Vacation/Annual Leave, PH, PLP, Dock

Missing Timesheets

Send an email to the ARO with a list of the missing timesheets for each unit. Provide the ARO a return date of 24 hours from the email to submit the timesheet.

If 24 hours has passed email the ARO, Employee and the Employees supervisor requesting the timesheets. This should also have a 24 hour return time frame.

In some cases, shorter deadlines may need to be set to ensure all timesheets are approved by LAB cutoff.

Timesheet Audit

All units must be audited by the end of the following pay period. For example the June timesheets are required to be audited and any discrepancies must be correct by the end of July.

On the day the Leave Accounting Balance report is available the PS should gather the following documents and provide to their back up to be audited.

- All STD. 634's with appropriate documentation for each unit
- Copy of the completed 672's for the pay period
- LAB's

The backup should audit the timesheets and record the following on the audit form

- Discrepancies in the 672's and the LAB report.
- Discrepancies with the leave types or hours from the STD. 634 and the LAB report.
- Missing Documentation or Required Comments

The Audit should be returned to the assigned Personnel Specialist within 48 hours to make corrections to CLAS.

Once the Personnel Specialist receives their audited timesheets they must note on the Audit form the following information:

- Explain any discrepancies from the LAB and 672's
- Note the correct Leave Type and Amount of hours
- Put the date the leave was entered or corrected. This date should match the CLAS B16 screens.
- Print and attach the B16 to the audit form

The Personnel Specialist must return the correct timesheet audit forms to their backup within 24 hours.

The backup should ensure all audit forms have been corrected and have the B16 screens attached for all leave discrepancies.

Once the audit is complete the timesheets should be filed in accordance to the following guidance.

Timesheet Filing

The timesheets are required to be filed by the end of the following pay period in the OPF room.

Each unit must have the required forms in the following order

- Audit Form and B16 screens attached to each unit
- All STD. 634's for each unit
- Copy of 672's

The timesheets should be filed in an accordion folder in the OPF room in the following order

- Pay Period
- Unit Number
- Alphabetically by employees last name

LEAVE ACTIVITY AND CORRECTION CERTIFICATION				Department of Industrial Relations		
PAY PERIOD		AGENCY CODE		UNIT#		NO ERRORS FOUND
MONTH YEAR		400				☐
672's Total	Timesheet List Report Total	Discrepancies		Reason		

(Leave type and/or Number of hours keyed) **PDD Hours: BU 02: 5 Days All other BU 2 Days**

Reviewer				Personnel Specialist		
Employee Name	Leave Type	Lab	TS	Correct Leave Type	Correct Number of Hours	Date Corrected

Dock Verified

Employee Name	# Hours	Verified Pay History	Employee Name	# Hours	Verified Pay History

Direct Deposit Cancelled

Employee Name	Reason	Employee Name	Reason

SIGNATURES

I certify that I have reviewed all leave keyed and have documented all errors, if any, to be corrected.

Reviewer Signature: Print Name: Date to PS:

I certify that I have reviewed and corrected the errors, if any as shown above.

Personnel Specialist Signature: Print Name: Date:

I certify that I have reviewed the corrections and all errors have been addressed.

Reviewer Signature: Print Name: Date:

ATTACHMENT 3

Finding 7 – Inadequate Controls over Salary Advances

1. Salary Advance Determination Process

2. Copy of Salary Advance Overpayment Notice

Since the SCO Audit Teams' final week of field work, DIR has implemented the following to mitigate risks associated with salary advances.

<u>**Forms**</u>

- **New Form - Authorization for Repayment of Office Revolving Fund (Salary Advance)**
    - A document is now used to assist the Personnel Specialists in the process of recovering outstanding salary advances.
    - The form informs the employee:
        - The amount of the salary advance they are accepting in-lieu of regular payment issued from the State Controller's Office (SCO)
        - Authorizes the Department to collect the full amount of the salary advance from pay issued from SCO the same pay period and payment type. If the warrant that issues from SCO is insufficient to cover the full amount of the salary advance, the employee authorizes the Department to collect the overpayment from any subsequent payroll warrant(s) issued to them until the total amount of the salary advance has been recovered.
        - How many salary advances the employee is allowed to receive per the employee's MOU in a calendar year.
        - Informs the employee that the salary advance they are receiving represents the (first, second, third, or fourth) issued to them in the 20XX calendar year.
        - Employee acknowledgement that they are ineligible to participate in the Direct Deposit Program until the salary advance has been fully satisfied/recovered.
        - Employee must sign and return to HR for record of employee accepting the salary advance.
        - Also signed by "Witness", typically someone from DIR Accounting responsible for releasing the salary advance.
        - The signed authorization is valid until the salary advance is paid/recovered in full.
    - Personnel Specialists will need a reminder and reinforcement of the urgency, priority and their responsibility to collect on the salary advances that they have requested/will request in the future.

- **New Form - Notification of Repayment of Salary Advance**
    - This notice will go out to employee who have received a salary advance and collection was not done timely by the Personnel Specialist (e.g. – a salary advance was given to an employee for the September 2020 pay period due to late dock – the master payroll check needed to be returned and re-deposited so that the correct pay could be processed and issued by SCO. Correct pay was issued by SCO but was not applied to clear the

outstanding salary advance and was released to the employee inadvertently before Personnel Specialist realized it.

- Notice was sent to the employee along with a copy of the signed Authorization for Repayment.
- Notice indicates the following:
  - Employee name and mailing address
  - Outstanding salary advance number
  - Agency/Unit
  - Pay period the outstanding salary advance is for
  - The outstanding salary advance amount
  - Reason the salary advance was issued to the employee
- Employee must respond within 15 calendar days from date of notice.
- Gives the employee the option to repay the salary advance via personal check, cashier's check or money order by the 5th working day after pay day.
- If payment is not received by the 5th working day, assigned Personnel Specialist will take the necessary action to deduct the amount owed from the next applicable warrant(s).
- If employee does not respond, the assigned Personnel Specialist will take necessary action to collect from the next applicable warrant(s), up to 25% of the employee's disposable income from that warrant, until the outstanding salary advance is paid in full.
  - Personnel Specialist will collect amount (indicated above) from warrant.
  - Remaining balance that is not applied to the outstanding salary advance will be issued as a separate check by Accounting and mailed to the employee along with the pay stub.

Process

- Salary advance request is initiated by the Personnel Specialist for one of the possible reasons:
  - Late dock reported by either the HR Liaison or the Attendance Reporting Officer (ARO).
  - Employee separation (resignation, service retirement, etc.)
  - Timely payment of wages
  - Other reasons
- Personnel Specialist calculates the gross amount the employee who is receiving the salary advance is supposed to receive.
- Personnel Specialist uses the SCO Paycheck Calculator to determine the estimated net amount. SCO Paycheck Calculator **only works** for Master Payroll Calculations. This does not work for overtime pay or special pays that are issued separately from Master Payroll and are not included as an Earnings ID on the employee's PAR. These particular calculation are done manually.

- Factors entered into SCO Paycheck Calculator to determine the estimated net amount:
    - Exemptions the employee is currently claiming
    - Retirement Code
    - Pre-tax deductions
        - Health, dental, vision premiums
        - FlexElect Cash and/or CoBen
        - Pre-tax 401k or 457
    - Tax aggregation (separating employees, employees with mid-month salary changes
- If salary advance is for SCO pay that issued but the employee will not receive their check timely (i.e. Master Payroll Warrant), copy of payment history details screen is all that is needed in order to get the salary advance processed by Accounting.
- Manual Calculations are based on the following flat percentages:
    - Federal Tax – 22%
    - State Tax – 6.6%
    - Social Security – 6.2%
    - Medicare – 1.45%
    - SDI (if applicable) – 1%

- From the net amount calculated from the SCO Paycheck Calculator, Personnel Specialist will use either a $50.00 or $100.00 buffer for each pay period, depending on the reason for the salary advance (i.e. - $50.00 buffer for Master Payroll; $100.00 for lump sum payment), to help mitigate the chance of a salary advance overpayment (warrant(s) that issue from SCO are less than the salary advance amount.
- Salary advance form is written up by the Personnel Specialist for review by the Personnel Supervisor II.
    - In the reason section, reason for the salary advance will be indicated.
    - If it is being mailed out to the employee, mailing address for which the salary advance will be mailed out to will also be included.
- Personnel Supervisor II reviews and signs off on the salary advance. Returns the salary advance form to the Personnel Specialist.
- The Personnel Specialist will submit the salary advance request to Accounting/ORF Unit for processing along with the completed copy of the Authorization for Repayment of Office Revolving Fund (Salary Advance) minus signatures.
- Accounting will receive the salary advance request and assign a SAD # to the request. Accounting will send an email back to the Personnel Specialist with the SAD # indicated, usually in the subject line of the email.
- Personnel Specialist will add the salary advance information into the Outstanding Salary Advance Log, located on the PS Share Drive, inside the "Salary Advance Information" folder.

- Once pay has issued by SCO, warrant release is given to Accounting, indicating to apply the issued warrant towards the clearing/repayment of the outstanding salary advance.
- Personnel Specialist updates the Outstanding Salary Advance Log, noting warrant number, amount of warrant and when it was applied.
- For salary advances that have been cleared, there is a binder at the front desk where Personnel Specialists can place the cleared salary advance in, by pay period for which the salary advance was issued for.
    - The binder is divided by month/pay period.
    - If the salary advance was for multiple pay periods, it will be placed in the binder based on the first pay period that the salary advance was for.

DEPARTMENT OF INDUSTRIAL RELATIONS
HUMAN RESOURCES
1515 Clay Street, Suite 409
Oakland, CA 94612
Tel: (510) 907-2390 Fax: (510) 286-6302

Date

Name
Address
Address

SAD #
Agency/Unit #

NOTIFICATION OF REPAYMENT OF SALARY ADVANCE (SEPARATED EMPLOYEE)

A review of our payroll records indicates that you have been overpaid for the _______ pay period (s) in the amount of $_______.

The overpayment is a result of the following:

(Please indicate the reason(s) why a salary advance was issued to our former DIR employee)
Please do not keep the information highlighted

Before taking any collection action, you are being given an opportunity to review the reason(s) for the overpayment. If you do not respond within 15 calendar days from the date of this notification, formal collection action will be pursued through Per Government Code Sections 12419.5, 12419.7, and 12419.9, a claim will be filed with the California Franchise Tax Board to recover the amount of the overpayment from any tax refunds owed to you.

Please complete and sign the attached Election for Repayment of Salary Advance document and return to:

Department of Industrial Relations
Human Resources
Attention:
1515 Clay Street, Suite 409
Oakland, CA 94612

Respectfully,

NAME
Personnel Specialist
Office of Personnel Services

Attachment

ELECTION FOR REPAYMENT OF SALARY ADVANCE

I acknowledge the overpayment and request the following collection method:

☐ **AGENCY COLLECTION**

I agree to submit a personal check, cashier's check, or money order. A $25.00 service fee will be assessed on returned personal checks due to non-sufficient funds (NSF). If payment is not received at the Cashier's Office by the 15th calendar day from the date of this notification letter, I understand that Personnel Staff will then proceed with the appropriate collection process with Fidelity Creditors and California Franchise Tax Board. **Payments must be mailed to**:

Department of Industrial Relations
Human Resources Office
Attn:
1515 Clay Street, Suite 409
Oakland, CA 94612

NOTE: In order for your payment to be applied correctly, please indicate your <u>Salary Advance Number</u> and <u>Agency/Unit number</u> on your check or money order.

If you have any questions, please contact me at (enter e-mail address) or at (enter phone number).

______________________________ ______________

EMPLOYEE SIGNATURE **DATE**

ATTACHMENT 4

Finding 7 – Inadequate Controls over Salary Advances

Salary Advance Repayment Authorization form

Authorization for Repayment of Office Revolving Fund (Salary Advance)

☐ I, ____________________________, accept an OFFICE REVOLVING FUND (ORF)(Salary Advance) check in the amount of $__________________ from the Department of Industrial Relations (DIR). I understand that this ORF is being issued to me in lieu of a regular State Controller's Office (SCO) payroll warrant for monies earned and due to me for the pay period of __________________. I authorize DIR to collect the full amount of the ORF from the SCO warrant issued from the same pay period and payment type covered by this ORF. If the amount of the SCO warrant is insufficient to cover the full amount of this ORF, I authorize DIR to collect the overpayment from any subsequent payroll warrant(s) issued to me until the total amount of $__________________ has been recovered by DIR.

OR

☐ In accepting this HARDSHIP SALARY ADVANCE (HSA), I understand that I am accepting a loan from DIR in the amount of $_________________. This loan will be repaid in full from my next pay period regular payroll warrant. If funds from my regular payroll warrant, as noted above, do not cover the amount of this loan, I authorize the remaining debt to be recovered from my subsequent payroll warrants issued to me until the total amount of $_________________ has been repaid to DIR. I understand that departmental policy limits me to receiving **TWO (2)** hardship salary advances during a 12-month period.

Pursuant to your Memorandum of Understanding (MOU), or for excluded employees, the MOU of which you are aligned, you may not receive more than _________________ revolving fund checks (salary advances) per calendar year. The enclosed revolving fund check represents the __________________ one issued to you in calendar year ______________.

Please be advised that once the maximum number of salary advances have been issued to you, should your regular State Controller's Office (SCO) check have to be returned for any reason (dock, etc.), you will not receive your payroll warrant until such time as the corrected check is issued by SCO. This process can take up to three weeks or more in some instances.

I understand that I am not eligible to participate in the Direct Deposit Program until this ORF/HSA has been fully satisfied, and if I am currently participating in the Direct Deposit Program, it will be cancelled. This authorization is valid until this ORF/HSA is paid in full.

Employee – Print name and sign	Date Signed
Witness – Print name and sign	Date Signed

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250

http://www.sco.ca.gov

S19-PAR-0017