

CALIFORNIA STATE UNIVERSITY, LOS ANGELES

Audit Report

PAYROLL AUDIT

July 1, 2018, through June 30, 2021



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 26, 2024

Dr. Berenecea Johnson Eanes, President
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Dear Dr. Eanes:

The State Controller's Office audited the California State University, Los Angeles' payroll process and transactions for the period of July 1, 2018, through June 30, 2021. The audit was conducted pursuant to Government Code sections 12476 and 12410.

California State University, Los Angeles 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.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at 916-323-5744. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Dr. Berenecea Johnson Eanes

December 26, 2024

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Copy: Claudio Lindow, Interim Vice President for Administration and Finance
California State University, Los Angeles
Marcos Chagollan, Executive Director
Internal Audit and Compliance
California State University, Los Angeles
Wendy Xiong, Assistant Director
Payroll Systems
California State University, Los Angeles
Jennifer Chu, Human Resources Manager
Payroll Systems
California State University, Los Angeles
Mildred García, Ed.D., Chancellor
California State University
Albert A. Liddicoat, Ph.D., Interim Vice Chancellor for Human Resources
California State University
Vlad Marinescu, Chief Audit Officer
California State University
Sharon Best, Senior Manager
Investigations and Intergovernmental Audits
California State University
Lisa Dean, Acting Chief
Personnel and Payroll Services Division
State Controller's Office
Veronica Encinas, Bureau Chief
Personnel and Payroll Services Division
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the California State University, Los Angeles' (Cal State LA) payroll process and transactions for the period of July 1, 2018, through June 30, 2021.

Cal State LA 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 Cal State LA:

- Maintained adequate and effective internal controls over its payroll process, except for Findings 1 and 2; and
- Processed payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

However, our audit identified significant deficiencies in internal control over compliance as follows:

- Untimely employee separation lump-sum payments; and
- Salary advance collections not administered in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

Background

In 1979, the State of California adopted collective bargaining for state employees. This created a significant workload increase for the SCO's Personnel and Payroll Services Division (PPSD), as PPSD was the State's centralized payroll processing center for all payroll-related transactions. PPSD decentralized the processing of payroll, allowing state agencies and departments to process their own payroll-related transactions. Periodic audits of the decentralized payroll processing at state agencies and departments ceased due to the budget constraints in the late 1980s.

In 2013, the California State Legislature reinstated these payroll audits to gain assurance that state agencies and departments maintain adequate internal control over the payroll function, provide proper oversight of their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

Audit Authority

We conducted this audit in accordance with Government Code (GC) section 12476, which authorizes the SCO to audit the State's payroll system, the State Pay Roll Revolving Fund, and related records of state agencies within the State's payroll system. In addition, GC section 12410 provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

**Objectives, Scope,
and Methodology**

Our audit objectives were to determine whether Cal State LA:

- 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 July 1, 2018, through June 30, 2021. The audit population consisted of payroll transactions totaling \$538,501,324, as quantified in the Schedule.

To achieve our audit objectives, we performed the following procedures:

- We reviewed state and Cal State LA policies and procedures related to the payroll process to understand Cal State LA's methodology for processing various payroll and payroll-related transactions.
- We interviewed Cal State LA payroll personnel to understand Cal State LA'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 controls over the payroll process and systems.
- We 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.
- We analyzed and tested the selected transactions, and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, the accuracy of leave transactions, the adequacy and effectiveness of internal control over the payroll process, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- We reviewed salary advances to determine whether Cal State LA administered and recorded them in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- We assessed the reliability of computer-processed data for payroll and payroll-related transactions by interviewing Cal State LA officials knowledgeable about the data; reviewing existing information about the data and the system that produced it; and tracing data to source documents, based on statistical sampling and targeted selection. We determined that the data was sufficiently reliable for the purposes of this report.

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 Cal State LA maintained adequate and effective internal controls over its payroll process, except for Findings 1 and 2.¹ Cal State LA processed payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. However, our audit also identified significant internal control deficiencies over compliance related to untimely employee separation lump-sum payments and salary advances not administered in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures as follows:

- Cal State LA did not make timely separation lump-sum payments to five of 105 (5%) employees whose records we examined (see Finding 1).
- Cal State LA had inadequate controls to ensure that salary advance collections were administered in accordance with requirements and collected in a timely manner. Thirteen salary advances, totaling \$4,875, remained outstanding for more than 90 days as of June 30, 2021 (see Finding 2).

Follow-up on Prior Audit Findings

We have not previously conducted an audit of Cal State LA's payroll process and transactions.

Views of Responsible Officials

We issued a draft audit report on October 2, 2024. Cal State LA's representative responded by letter dated October 4, 2024, agreeing with the audit results. This final audit report includes Cal State LA's response as an attachment.

¹ In planning and performing our audit of compliance, we considered Cal State LA'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 significant deficiencies.

A deficiency in internal control over compliance exists when the design, implementation, 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 on a timely basis. *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 a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Restricted Use

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

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

December 26, 2024

**Schedule—
Summary of Audit Results
July 1, 2018, through June 30, 2021**

Audit Area Tested	Method of Selection	Number of Units of Population	Dollar Amount of Population	Number of Selections Examined	Dollar Amount of Selections Examined	Net Total Dollar Amount of Identified Improper Costs	Net Total Dollar Amount of Projected Improper Costs and Identified and Projected Unsupported Costs	Finding Number
Segregation of duties	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
System access	Targeted	11	N/A	11 Employees	N/A	N/A	N/A	
Regular pay	Statistical	127,635	\$ 503,161,009	105 Transactions	\$ 447,300	\$ -	\$ -	
Emergency pay	Statistical	3,232	16,520,422	105 Transactions	533,463	-	-	
Settlement pay	Statistical	2,301	5,345,454	105 Transactions	302,878	-	-	
Overtime pay	Statistical	6,025	5,383,182	105 Transactions	94,540	-	-	
Excess vacation and annual leave	Targeted	285	4,256,283	105 Employees	1,748,167	-	-	
Separation lump-sum pay	Statistical	465	3,804,080	105 Employees	916,014	-	-	1
Uniform allowance	Statistical	342	23,826	105 Transactions	6,612	-	-	
Salary advance	Targeted	18	7,068	18 Transactions	7,068	4,875	-	2
			\$ 538,501,324		\$ 4,056,042	\$ 4,875	\$ -	

Findings and Recommendations

FINDING 1— Late separation lump-sum payments

Cal State LA lacked adequate controls to ensure timely employee separation lump-sum payments. Cal State LA did not make separation lump-sum payments to five employees in a timely manner. If not mitigated, these control deficiencies leave Cal State LA at risk of making additional late separation lump-sum payments, noncompliance with agreements and laws, and liability for late payments.

Payroll records show that Cal State LA processed separation lump-sum payments, totaling \$3,804,080, for 465 employees between July 2018 and June 2021. We randomly selected a statistical sample (as described in the Appendix) of 105 employees who received separation lump-sum payments, totaling \$916,014. Based on our examination of the employees' records, we found that Cal State LA did not make separation lump-sum payments to five of 105 (5%) employees in a timely manner.

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

Education Code section 89504 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.

Recommendation

We recommend that Cal State LA establish adequate controls to ensure timely payment of separation lump-sum pay.

FINDING 2— Failure to collect outstanding salary advances

Cal State LA lacked adequate controls over salary advances to ensure that advances were collected in a timely manner, in accordance with state law and policies. Thirteen salary advances, totaling \$4,875, had remained outstanding for more than 90 days as of June 30, 2021, because Cal State LA had not initiated timely collection efforts.

At June 30, 2021, Cal State LA's accounting records show 18 salary advances, totaling \$7,068, that had been outstanding for more than 90 days. We examined all 18 advances, and found that 13 of them, totaling \$4,875, had not been collected in a timely manner. The oldest uncollected salary advance was outstanding for over four years. We noted that Cal State LA had not initiated timely collection efforts for any of the 13 salary advances. Salary advances are more difficult to collect after the employee leaves state service, and they may become uncollectable if not collected within three years.

If not mitigated, these control deficiencies leave Cal State LA at risk of failing to collect further salary advances.

Chapter 28, "Accounts Receivable," of the California State University *Legal Manual* and State Administrative Manual sections 8291, 8291.1, and 8293 describe state and Cal State LA collection policies and procedures, which require the collection of salary advances in a timely manner and maintenance of proper records of collection efforts.

Recommendation

We recommend that Cal State LA ensure that it collects salary advances in a timely manner, pursuant to Chapter 28, "Accounts Receivable," of the California State University *Legal Manual* and State Administrative Manual sections 8291, 8291.1, and 8293.

Appendix— Audit Sampling Methodology

This Appendix outlines our audit sampling application for all audit areas where statistical sampling was used.

We used attributes sampling for tests of compliance. We chose this sample design because:

- It follows the American Institute of Certified Public Accountants (AICPA) guidelines;
- It allowed us to achieve our objectives for tests of compliance in an efficient and effective manner;
- Audit areas included high volumes of transactions;
- We planned to project the results to the intended population; and
- We had the collective knowledge and skills to plan and perform the sampling plan and design.

We conducted compliance testing on samples chosen by computer-generated simple random selection. For populations of 250 items or more, we determined the sample size using a calculator with 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 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.

The confidence level was 90.00%, the tolerable error rate was 5.00%, and the expected error rate was 2.00 (1.75%). Pursuant to the AICPA's *Audit Guide: Audit Sampling* (December 1, 2019 edition), pages 131–132, the expected error rate 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 become 1.0 error. Results were projected to the intended (total) population.

Audit Area	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Size	Finding Number
Regular pay	127,635	\$503,161,009	Transaction	105	
Overtime pay	6,025	5,383,182	Transaction	105	
Separation lump-sum pay	465	3,804,080	Employee	105	1
Settlement pay	2,301	5,345,454	Transaction	105	
Emergency pay	3,232	16,520,422	Transaction	105	
Uniform allowance	342	23,826	Transaction	105	

**Attachment—
California State University, Los Angeles' Response
to Draft Audit Report**



CAL STATE LA

CALIFORNIA STATE UNIVERSITY, LOS ANGELES

October 4, 2024

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

Dear Mr. Espilla,

This letter addresses the draft report issued by the State Controller's Office (SCO) on October 2, 2024, concerning the payroll processes and transactions at California State University, Los Angeles (Cal State LA) for the period from July 1, 2018, through June 30, 2021.

We appreciate the professionalism and insights provided by the SCO auditors and value the opportunity to respond to the findings and recommendations.

Below are our responses to each finding and recommendation in the report:

Finding 1: Late separation lump-sum payments

SCO Recommendation: We recommend that Cal State LA establish adequate controls to ensure timely payment of separation lump-sum pay.

Cal State LA Response: We concur. Cal State LA will review and enhance current processes to ensure adequate controls over timely payments of separation lump-sum pay.

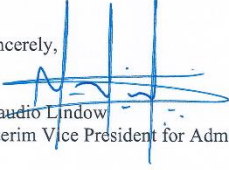
Finding 2: Failure to collect outstanding salary advances

SCO Recommendation: We recommend that Cal State LA ensure that it collects salary advances in a timely manner, pursuant to Chapter 28, "Accounts Receivable," of the California State University Legal Manual and State Administrative Manual sections 8291, 8291.1, and 8293.

Cal State LA Response: We concur. Cal State LA will ensure the timely collection of salary advances in accordance with Chapter 28, "Accounts Receivable," of the CSU Legal Manual and State Administrative Manual sections 8291, 8291.1, and 8293.

If you have any questions, please get in touch with Marcos Chagollan, Executive Director of Internal Audit and Compliance, at [REDACTED]

Sincerely,


Claudio Lindow
Interim Vice President for Administration and Finance and Chief Financial Officer

Interim Vice President & Chief Financial Officer

Administration & Finance

5151 STATE UNIVERSITY DRIVE, LOS ANGELES, CA 90032 • 323-343-3500 •
CLINDOWCALSTATELA.EDU

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

www.sco.ca.gov