

Internal Control Audit of the

Department of Consumer Affairs

Personnel & Payroll Cycle

August 2008

Audit No. 2007-101

INTERNAL AUDIT OFFICE

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May 19, 2009

Patricia Harris, Chief Deputy Director (A)
Executive Office
Department of Consumer Affairs
1625 North Market Blvd., S-308
Sacramento, California 95834

Subject: Internal Control Audit Report- Personnel/Payroll Cycle

Enclosed is our audit report of the department's internal control over its personnel & payroll practices. We performed this audit to assist the department in complying with the Financial Integrity and State Manager's Accountability Act of 1983, which requires an assessment of the adequacy of internal controls. Our audit identified several reportable conditions for which controls could be improved. If left uncorrected, these conditions increase the risk that material errors or irregularities could occur and remain undetected.

We have included our specific findings and recommendations in the attached report. As outlined in its response, the department concurred with our audit findings and has already implemented some corrective actions. The department also plans to implement additional corrective actions to address the remaining audit issues. We plan to follow-up on the department's progress in implementing its corrective actions within 360 days from the audit report date. We will request the department's responses approximately 30 days prior to a follow-up audit.

We would like to thank the Office of Human Resources and its staff for their cooperation during the audit. If you need further information, please call me at (916) 574-8191.

Sincerely,

Original signed by Cathleen Sahlman

Cathleen Sahlman
Audit Chief

Attachment

cc: Kitty Williamson, Deputy Director, Administrative & Support Services
Audit Committee Members

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The Department of Consumer Affairs (DCA), Office of Human Resources (OHR) provides full-service human resources support for employees within DCA and for client agencies. DCA OHR staff is available to provide clients with the necessary information needed to make well-informed decisions with personnel-related laws, rules, policies, processes, and procedures.

The areas of responsibility for OHR include:

- Personnel operations, which includes classification and pay;
- Personnel transactions, which is payroll and benefits administration;
- Health and Safety, which includes reasonable accommodations, worker compensation and employee safety;
- Selection Services, which includes testing and certification of employment lists;
- Labor relations, which includes providing efficient and timely labor relations services and facilitating a cooperative relationship between management, employees, and the unions;
- Technical Resources Unit, which includes the Merit Award administration, Conflict of Interest, Department Procedures Memorandums (DPM), Departmental Policies, Personnel Procedures Handbook, and employee notices;
- Training and Development Unit, which is responsible for all aspects of the departmental training program including the preparation of reports to management on the status of training, recommending department-wide training programs and policies, and reviewing and approving all formal training which is to be on State time and supported by State funds; and
- Equal Employment Opportunity Unit, which promotes affirmative action for persons with disabilities, equal employment opportunity, prevention and elimination of discriminatory practices through training, education, and outreach.

**Personnel/Payroll Audit
August 28, 2008**

The Department of Consumer Affairs' (department) Internal Audit Office completed an accounting and administrative control audit of the department's Office of Human Resources, Personnel and Payroll Units, as required by Section 20000 of the State Administrative Manual (SAM). The purpose of the audit was to assist the department in complying with the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, which requires an assessment of the adequacy of internal controls. Specifically, we reviewed the department's personnel/payroll operations to determine whether adequate internal controls were in place to ensure compliance with state requirements and incorporated sound management practices.

The audit identified several internal control weaknesses relating to personnel-payroll activities. The following material weaknesses were noted:

- DCA Mailroom policies and procedures are inadequate as they relate to payroll warrant pickup and authorizations.
- DCA Cashiering/Payroll policies and procedures do not cover the handling of payroll warrants.
- DCA Office of Human Resources policies and procedures do not clearly incorporate access requirements for the Human Resources Information System (HRIS).
- DCA does not always maintain complete records of attendance and absences for each employee.
- Overtime is not approved in advance.
- Official Attendance Certifications were not organized and were kept in unmarked boxes in the file room.
- Late reported dock could result in erroneous payroll warrants.
- Separation documentation and procedures are inconsistent within the Personnel Unit.
- Some separating employees left State service owing money to DCA.

We have completed an audit of the accounting and administrative control of the Department of Consumer Affairs (department) personnel and payroll activities in effect as of August 28, 2008. Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included audit tests we considered necessary in determining that internal controls over personnel and payroll activities are in place and operative.

Management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code (GC) Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Our responsibility is to express an opinion on the adequacy of the department's internal control over its personnel and payroll activities, based on our audit. Accordingly, our audit included obtaining an understanding of internal control over the personnel and payroll function; testing and evaluating the design and operating effectiveness of internal control related to this area; and performing such audit procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of the internal control over the personnel and payroll process to future periods is subject to the risk that the internal control may be adversely affected by changes in conditions that render it inadequate, or that the degree of compliance with the policies and procedures may deteriorate.

Our audit identified several internal control weaknesses relating to the department's personnel and payroll activities. The following reportable conditions were noted:

- DCA Mailroom policies and procedures are inadequate as they relate to payroll warrant pickup and authorizations.
- DCA Cashiering/Payroll policies and procedures do not cover the handling of payroll warrants.

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- DCA does not always maintain complete records of attendance and absences for each employee.
 - Overtime is not approved in advance.
 - Official Attendance Certifications were not organized and kept in unmarked boxes in the file room.
 - Late reported dock could result in erroneous payroll warrants.
 - Separation documentation and procedures are inconsistent within the Personnel Unit.
 - Some separating employees left State service owing money to DCA.

Except for the effect of the weaknesses described in the preceding paragraph, the department maintains adequate internal control over its personnel and payroll functions as of August 28, 2008, based on the requirements of GC section 13400 et seq.

The audit findings are described more fully in the Findings and Recommendations section of this report.

This report is intended for the information and use of the department and the report should not be used for any other purpose.

Original signed by Cathleen Sahlman

Cathleen Sahlman, Audit Chief
Department of Consumer Affairs
Internal Audit Office

August 28, 2008

FINDINGS AND RECOMMENDATIONS

FINDING 1

DCA mailroom lacks policies and procedures for payroll warrant handling.

Condition

The DCA mailroom does not have formal written procedures for SCO payroll warrant pickup. There are no written policies and procedures to ensure staff adequately carry out job duties.

Effect

The lack of policy and procedures is an obstacle for staff to effectively carry out duties and define roles/responsibilities. Unauthorized employees could pick up and possibly misappropriate warrants.

Criteria

State Administrative Manual (SAM), Section 20050, states: Experience has indicated that the existence of one or more of the following danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities. Entity heads and managers should identify and make the necessary corrections when warned by any of the danger signals listed below.

1. Policy and procedural or operational manuals are either not current or are nonexistent.
2. Lines of organizational authority and responsibility are not clearly articulated or are nonexistent.

Recommendations

The DCA Mailroom manager should develop formal written procedures for SCO payroll warrant pickup.

FINDING 2***DCA Cashiering/Payroll policies and procedures do not cover the handling of payroll warrants*****Condition**

The payroll distribution unit within the Cashiering Unit does not have written policies and procedures in place for handling payroll warrants.

Effect

The lack of policy and procedures makes it difficult to delineate duties, define roles and responsibilities, as well as ensure accountability over the handling of warrants.

Criteria

State Administrative Manual (SAM), Section 20050, states: Experience has indicated that the existence of one or more of the following danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individuals units or activities. Entity heads and managers should identify and make the necessary corrections when warned by any of the danger signals listed below.

1. Policy and procedural or operational manuals are either not currently maintained or are nonexistent.
2. Lines of organizational authority and responsibility are not clearly articulated or are nonexistent.

Recommendation

The DCA Payroll Distribution Unit manager should develop formal written procedures for handling payroll warrants.

FINDING 3***Attendance and absence records are not properly maintained.*****Condition**

Not all Absence and Additional Time Worked Reports, Std 634s, could be found in the Office of Human Resources (OHR). There is no tracking system in place to ensure all required personnel documents are returned to OHR. Unit timesheets (internal time records) are not always kept on file. Not all internal timesheets reconciled with the Std 634. OHR does not have standardized procedures for keeping monthly leave documentation.

Effect

These conditions could result in the late detection of errors, increased workload for staff, and difficulty validating the accuracy of leave balances.

Criteria

State Administrative Manual (SAM), Section 8539 states that agencies will maintain complete records of attendance and absences for each employee during each pay period. These records will be properly certified. The original copy of the completed Time and Attendance Report form, 672, required by the State Controllers Office (SCO) and maintained at the agency, will be signed only by those authorized per the signature on file at SCO.

Recommendation

Develop and implement procedures for maintaining monthly attendance documentation. Ensure that all personnel documents are received from clients each month by way of a tracking system.

FINDING 4

Overtime is not always approved in advance.

Condition

Overtime is not always pre-approved in writing and the only indication of approval was the certification of the employee's Absence and Additional Time Worked Reports, Std 634.

Furthermore, the practice of overtime pre-approval appears to be inconsistent around the department.

Effect

The conditions could lead to unauthorized overtime worked and paid.

Criteria

State Administrative Manual (SAM), Section 8540, states that compensation for overtime, either by cash payment or time off, should be based upon prior written approval signed by a designated supervisor. It should also be authorized and issued in accordance with bargaining unit agreements. Due to the nature of work carried out by a State agency, management can retroactively approve this compensation. Care should be exercised in recording the overtime hours on the monthly attendance reports and overtime records of the employing State agency.

Recommendation

DCA should standardize its overtime policy to ensure that overtime is pre-approved in writing whenever possible. Also, management needs to ensure overtime hours documented on the Std 634 form as worked are approved.

FINDING 5***Official Attendance Certifications were not adequately organized or properly filed*****Condition**

Official Attendance Certifications, Form 672, which certify to the SCO that attendance is reported correctly, were not organized, and were kept in 30-40 unmarked boxes in the file room. They were not in any particular order, and it was not possible for the personnel office to pull the requested forms for review or testing in a timely manner.

Effect

This lack of organization could make it difficult to verify what was reported to the SCO if attendance were ever called into question.

Criteria

Government Code 13403 (a) (3) states that a satisfactory system of internal accounting and administrative control, shall include, but are not limited to:
“a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.”

Recommendation

The Office of Human Resources should develop and implement a filing and storage system which allows for timely access to files and documents.

FINDING 6***Late-reported dock (absences without leave) could result in erroneous payroll warrants*****Condition**

Attendance Coordinators can enter late dock (dock that is entered after the cut-off date to change the paycheck) in the Human Resources Information System, but are also required to contact Human Resources to inform them that there is late dock, so that the personnel specialist can ensure no overpayment occurs. In some cases, the notification of late dock is not made, resulting in the employee receiving a full and therefore incorrect paycheck.

As a compensating control, when signed timesheets are returned to the Office of Human Resources (OHR) late dock can be detected. Employees who are chronically on dock are always checked. OHR estimates that approximately 5% of employees have late dock.

Effect

If dock is keyed after cutoff, it could go undetected and the employee could receive a regular full-pay warrant, resulting in overpayment.

Criteria

The Department of Consumer Affairs Personnel Procedures Handbook, section 1500-8 states:

Each reporting unit is required to notify the Personnel Office of any absences without leave (dock) that have occurred during the pay period and any dock anticipated after the State Controller's Office (SCO) cut-off date through the last day of the pay period. The Attendance Coordinator (AC) shall input all absences without pay into HRIS by the SCO cut-off date. The Personnel Office shall run the Monthly HRIS Dock Report and this information shall be keyed into the SCO system to ensure an accurate pay warrant is issued on payday. Following the SCO cut-off date, all dock reported to the ACs shall be input into HRIS and also reported to the assigned Personnel Specialist (PS).

When an employee does not have accumulated credits to cover his/her absence, and it is not possible to determine the date of return to duty, the employee shall be reported on dock through the last day of the pay period. This procedure will afford the employee a partial salary payment on the regular payday and will alleviate the chance of an overpayment. If the employee returns to work before the end of the pay period, the reporting unit shall notify the assigned PS immediately by telephone and/or e-mail. A supplemental warrant covering the unpaid salary balance will be issued after the end of the pay period.

Finding 6

The Payroll Procedures Manual, section D 108 states:
To ensure that docks are reflected on the master payroll, Form STD. 603 should be processed in time for monthly/semi-monthly cutoff.

Forms STD. 603 processed AFTER the master payroll warrants have been released will not issue payments until the previous warrant has been returned/redeposited.

Departments are responsible for losses resulting from release of erroneous warrants.

Recommendation

All timesheets should be reviewed for late dock. Also, ACs should be reminded to report late dock to Personnel Specialists as soon as possible. At the time late dock is entered into HRIS, the ACs should report this to the Personnel Specialists.

FINDING 7

Employee separation procedures and documentation are inconsistent

Condition

Documentation on employee separation was not properly maintained, as follows:

- Most employees did not have the correct separation form, (Notice of Separation HR-15 Form), in their OPF file and these forms could not be provided to us by personnel staff.
- We were unable to determine the date when OHR was first notified of an employee separation for all employees tested. Notification emails that were sent from the client to personnel specialist staff were not retained.
- Of the HR-15 forms tested, most did not have an accounting signature present. Therefore, it is hard to determine if the DCA Accounting Office provided clearance.
- The HR-15 does not provide information on separation timelines (i.e., date notice given, OHR notified, etc.).

Effect

If there is no documentation of Accounting Office clearance, it is difficult to determine if the Accounting Office has had an opportunity to review and report all amounts due from employees before final payment is issued. Therefore, Accounts Receivables or outstanding salary advances may not be detected and withheld before the final payment to separating employees, resulting in incorrect final payment to separating employees.

Furthermore, if there is no date documented when OHR was notified of an employee separation, it is difficult to determine if the separating employee was paid timely.

Criteria

Government Code Section 13403 states, in part “the elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to:

3. A system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.
4. An established system of practices to be followed in performance of duties and functions in each of the state agencies...
6. An effective system of internal review.”

Government Code Section 19838 authorizes the state to withhold amounts owed for outstanding travel and salary advances from an employee’s final separation pay.

Recommendation

The OHR should:

- Retain correspondence that would indicate when OHR was notified of separations by the client.
- Ensure that all Notice of Separation forms are fully completed, including accounting signatures. Retain Notice of Separation forms in OPF files.
- If the Accounting Office clearance took the form of an e-mail, the e-mail should be retained in the OPF. If the Accounting Office clearance took the form of verbal information, the personnel specialist should document that response and retain it.
- Revise the HR-15 to provide information on separation timelines.

FINDING 8

Employees have separated from DCA with amounts owed to the State

Condition

Final payment was issued to a separating employee without clearing outstanding salary advances.

In one case, one employee, was given a salary advance in 2005, which was not completely cleared. This employee still owes \$73.01 from that advance. He also owes \$27.40 for a salary advance on January 31, 2007. On February 22, 2007, he was determined to be AWOL, and was separated from the Department. OHR was notified about the advances, but did not clear the advances before issuing the final paycheck to the separating employee.

As of July 15, 2008, the employee has not been notified of the amounts owed.

The Accounts Receivable log is not updated on a regular basis.

Effect

The separated employee still owes \$100.41 and has not been invoiced for the amounts owed. The Department will have a more difficult time collecting amounts owed from this individual now that he has separated from State service. The Department will lose the ability to collect the outstanding amounts three years after the occurrence.

Criteria

Government Code 8776.7 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from Office Revolving Fund (ORF) salary advances. Departments will notify employees in writing of overpayments and provide them an opportunity to respond. The overpayment notification should include at least the following items:

- a. Amount due;
- b. Pay period affected if overpayment relates to salary;
- c. Reason for overpayment;
- d. Response time afforded to employee prior to collection action;
- e. Optional: proposed repayment plan and method of collection.

The employee will be given 15 calendar days to respond, either orally or in writing. If the employee is on vacation, sick leave, out-of-town assignment, etc, and cannot be reached, the time afforded the employee to respond should be adjusted accordingly. All responses will be documented and maintained in department files.

For separating employees, it may not be possible to provide

Finding 8

written notification regarding overpayments. Regardless, Government Code Section 19838 states in section (b): An employee who is separated from employment prior to full repayment of the amount owed shall have withheld from any money owing the employee upon separation an amount sufficient to provide full repayment.

Section (d) states: No administrative action shall be taken by the state pursuant to this section to recover an overpayment unless the action is initiated within three years from the date of overpayment.

Recommendations

OHR should not issue final payment to separating employees without obtaining clearance from accounting verifying no amounts are still owed to the state.

The accounts receivable log should be kept current and accurate.