

CALIFORNIA DEPARTMENT OF STATE HOSPITALS – PATTON

Review Report

PAYROLL PROCESS REVIEW

July 1, 2010, through June 30, 2013



JOHN CHIANG
California State Controller

August 2014



JOHN CHIANG
California State Controller

August 20, 2014

Harry Oreol, Acting Executive Director
California Department of State Hospitals – Patton
3102 East Highland Avenue
Patton, CA 92369

Dear Mr. Oreol:

The State Controller's Office has reviewed the California Department of State Hospitals (DSH)-Patton payroll process for the period of July 1, 2010, through June 30, 2013. DSH-Patton's 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 limited review identified material weaknesses in internal control over the DSH-Patton payroll process that leave DSH Patton at risk of additional fraudulent or erroneous payments if not mitigated. An evaluation of an entity's payroll process may identify deficiencies in its internal control over such a process. A deficiency in internal control 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 misstatements in financial information, impairments of effectiveness or efficiency of operations, or 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Based on our review, DSH-Patton has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, we found that DSH-Patton:

- Lacked adequate segregation of duties within its payroll transactions unit. This was aggravated by insufficient oversight to ensure that payroll transactions unit staff processes only authorized transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies. We believe that these material weaknesses in internal control over the payroll process contributed to one fraud incident disclosed to us by DSH-

Patton that resulted in more than \$800,000 in false payments. Our review also found that these control weaknesses contributed to misstatements in leave balances and overpayments and underpayments in overtime compensation. Of the 98 employees we reviewed for leave balances, 25 (or 26%) had misstatements in balances that resulted in a net total overstatement of approximately \$27,834. Of the 23 employees we reviewed for overtime compensation, 3 were overpaid by approximately \$1,902 and 3 were underpaid by approximately \$1,219 due to incorrect pay rates and miscalculation of overtime hours.

- Did not adhere to its existing policies and procedures related to attendance reporting. We also found no indication that DSH-Patton performed adequate oversight to ensure that policies and procedures are implemented as prescribed. We believe that these material weaknesses in internal control over the payroll process contributed to another incident disclosed to us by DSH-Patton that resulted in more than \$100,000 in fraudulent payments. Our review of daily attendance records for 10 selected employees did not reveal any significant errors but we found concerning practices similar to the fraud incident. In our review of attendance records for 1 of the 10 employees, several individuals signed in, or out, for 2 to 5 other employees in a single work shift. These incidents occurred every day during the month in all three work shifts for one DSH-Patton unit. We also found that 4 of the 10 employees failed to sign in, or out, on at least one occasion. Further, in all instances, we found no indication that the supervisors reviewed daily attendance records and verified the accuracy of each employee's hours when they signed the employees' timesheets.
- Did not adhere to its existing policies and procedures regarding out-of-class compensation. This was aggravated by DSH-Patton's insufficient oversight to ensure that policies and procedures are implemented as prescribed and out-of-class compensation is processed in accordance with collective bargaining agreements and state and DSH-Patton policies. Accordingly, 12 (or 44%) of the 27 assignments we reviewed, for 20 employees who received out-of-class compensation, lacked adequate supporting documentation for an approving official to properly review and approve the assignment. Of the 20 employees, 5 (or 25%) exceeded the limits set by collective bargaining agreements and state policy for out-of-class assignments, resulting in overpayments of approximately \$42,800. DSH-Patton also overpaid 3 of the 20 employees by approximately \$4,000 due to errors.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

Attachment

cc: Cliff Allenby, Acting Director

California Department of State Hospitals

Mark Beckley, Deputy Director, Administrative Services

California Department of State of Hospitals

Rob Cook, Chief Operating Officer

California Department of State of Hospitals

Irene Briggs, Chief Financial Officer

California Department of State Hospitals

Cindy Woolston, Chief, Office of Audits

California Department of State of Hospitals

Nitin Kulkarni, MD, Acting Medical Director

California Department of State Hospitals – Patton

Blanche Sherer, Hospital Administrator

California Department of State Hospitals – Patton

Nancy Varela, Human Resources Director

California Department of State Hospitals – Patton

Contents

Review Report

Summary	1
Background	3
Objectives, Scope, and Methodology	4
Conclusion	5
Views of Responsible Officials.....	7
Restricted Use	7
Findings and Recommendations	8
Attachment A—California Department of State Hospitals’ Response to Draft Review Report	

Review Report

Summary

The State Controller's Office (SCO) reviewed the California Department of State Hospitals (DSH)-Patton payroll process for the period of July 1, 2010, through June 30, 2013. DSH-Patton's 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 limited review identified material weaknesses in internal control over the DSH-Patton payroll process that leave DSH-Patton at risk of additional fraudulent or erroneous payments if not mitigated. An evaluation of an entity's payroll process may identify deficiencies in its internal control over such a process. A deficiency in internal control 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 misstatements in financial information, impairments of effectiveness or efficiency of operations, or 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Based on our review, DSH-Patton has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, we found that DSH-Patton:

- Lacked adequate segregation of duties within its payroll transactions unit. This was aggravated by insufficient oversight to ensure that payroll transactions unit staff processes only authorized transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies. We believe that these material weaknesses in internal control over the payroll process contributed to one fraud incident disclosed to us by DSH-Patton that resulted in more than \$800,000 in false payments. Our review also found that

these control weaknesses contributed to misstatements in leave balances and overpayments and underpayments in overtime compensation. Of the 98 employees we reviewed for leave balances, 25 (or 26%) had misstatements in balances that resulted in a net total overstatement of approximately \$27,834. Of the 23 employees we reviewed for overtime compensation, 3 were overpaid by approximately \$1,902 and 3 were underpaid by approximately \$1,219 due to incorrect pay rates and miscalculation of overtime hours.

- Did not adhere to its existing policies and procedures related to attendance reporting. We also found no indication that DSH-Patton performed adequate oversight to ensure that policies and procedures were implemented as prescribed. We believe that these material weaknesses in internal control over the payroll process contributed to another incident disclosed to us by DSH-Patton that resulted in more than \$100,000 in fraudulent payments. Our review of daily attendance records for 10 selected employees did not reveal any significant errors but we found concerning practices similar to the fraud incident. In our review of attendance records for 1 of the 10 employees, several individuals signed in, or out, for 2 to 5 other employees in a single work shift. These incidents occurred every day during the month in all three work shifts for one DSH-Patton unit. We also found that 4 of the 10 employees failed to sign in, or out, on at least one occasion. Further, in all instances, we found no indication that the supervisors reviewed daily attendance records and verified the accuracy of each employee's hours when they signed the employees' timesheets.
- Did not adhere to its existing policies and procedures regarding out-of-class compensation. This was aggravated by DSH-Patton's insufficient oversight to ensure that policies and procedures are implemented as prescribed and out-of-class compensation is processed in accordance with collective bargaining agreements and state and DSH-Patton policies. Accordingly, 12 (or 44%) of the 27 assignments we reviewed for 20 employees who received out-of-class compensation lacked adequate supporting documentation for an approving official to properly review and approve the assignment. Of the 20 employees, 5 (or 25%) exceeded the limits set by collective bargaining agreements and state policy for out-of-class assignments, resulting in overpayments of approximately \$42,800. DSH-Patton also overpaid 3 of the 20 employees by approximately \$4,000 due to errors.

A summary of our review results is included in Table 1 on the following page.

Table 1 – Summary of Review Results

Finding Number	Issues	Selections Reviewed			Selections with Issues			
		Number of Selections Reviewed	Selection Unit	\$ Amount of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed ^a	Approximate \$ Amount	\$ Amount of Issues as a Percentage of \$ Amount of Selections Reviewed ^a
1	Lack of adequate segregation of conflicting duties and poor oversight of payroll transactions unit contributed to: ^b							
	Overstatements in leave balances	98	Employee	\$ 159,501 ^c	25	26%	\$ 27,834	17%
	Overpayments in overtime compensation				3	13%	1,902	1%
	Underpayment in overtime compensation	23	Employee	164,218	3	13%	(1,219)	(1%)
1	Lack of adequate internal control over attendance reporting ^d	10	Employee	—	10	100%	—	—
2	Lack of proper documentation to support out-of-class compensation	27	Out-of-class assignment	—	12	44%	—	—
2	Overpayments in out-of-class compensation	20	Employee	178,542	6 ^e	30%	46,800	26%
Total		<u>178</u>		<u>\$ 502,261</u>	<u>59</u>	33%	<u>\$ 75,317</u>	15%

^a All percentages are rounded to the nearest full point.

^b We believe that these control weaknesses contributed to a payroll fraud incident disclosed to us by DSH-Patton that resulted in more than \$800,000 in false payments. These control weaknesses leaves DSH-Patton at risk of additional fraudulent or erroneous payments if not mitigated.

^c This is the approximate cost of leave credits reviewed.

^d We believe that this control weakness contributed to another payroll fraud incident disclosed to us by DSH-Patton that resulted in more than \$100,000 in false payments. This control weakness leaves DSH-Patton at risk of additional fraudulent or erroneous payments if not mitigated.

^e Of the six employees, five had assignments that exceeded limits set by collective bargaining agreements and state policy, resulting in overpayments by approximately \$42,800. In addition, three of the six employees had errors in out-of-class compensation that resulted in additional overpayments by approximately \$4,000.

Background

In 1979, the State of California adopted collective bargaining for state employees. This adoption of collective bargaining 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. As such, PPSD decentralized the processing of payroll which allowed state agencies and departments to process their own payroll-related transactions. In addition, the SCO's Division of Audits was authorized a limited number of new positions to conduct periodic reviews of this now decentralized payroll processing at state agencies and departments. Due to the budget constraints in the late 1980s, these positions were eliminated and these periodic reviews were discontinued.

In March and May of 2012, an internal audit of the California Department of Parks and Recreation (DPR), as well as an investigation by the California Attorney General’s Office, disclosed a vacation buy-back program that was instituted at DPR without management’s authorization or the approval of the California Department of Human Resources (CalHR), as required by state law. This event renewed interest in reinstating state agency and department payroll reviews by the SCO.

In 2013, the SCO submitted a Budget Change Proposal, that was approved by the Legislature, to reinstate these payroll reviews to gain assurance that state agencies and departments were maintaining an adequate internal control structure over their payroll function; providing proper oversight over their decentralized payroll processing; and complying with various state laws and regulations regarding payroll processing and related transactions.

Review Authority

Authority for this review is provided by 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

The SCO reviewed the DSH-Patton payroll process and transactions for the period of July 1, 2010, through June 30, 2013. We conducted our onsite fieldwork between September 3, 2013, and October 3, 2013.

The objectives of this review were to determine whether:

- Payroll and payroll-related disbursements were accurate and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- DSH-Patton had established adequate internal control for payroll to meet the following control objectives:
 - Payroll and payroll-related transactions are properly approved and certified by authorized personnel;
 - Only valid and authorized payroll and payroll-related transactions are processed;
 - Payroll and payroll-related transactions are accurate and properly recorded;
 - Payroll systems, records, and files are adequately safeguarded; and

- State laws, regulations, policies, and procedures are complied with regarding payroll and payroll-related transactions.
- DSH-Patton complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures.
- DSH-Patton maintained accurate records of leave balances.
- Salary advances were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

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

- Reviewed state and DSH-Patton policies and procedures related to payroll process to understand the practice of processing various payroll and payroll-related transactions.
- Interviewed DSH-Patton payroll personnel to understand the practice of processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to the payroll transaction processing, and obtain or confirm our understanding of existing internal control over the payroll process and systems.
- Selected transactions recorded in the State’s payroll database based on risk factors and other criteria for review.
- Analyzed and tested transactions recorded in the State’s payroll database and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, proper review and approval of transactions, adequacy of internal control over the payroll process and systems, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- Reviewed salary advances to determine whether they were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

Conclusion

Our limited review identified material weaknesses in internal control over the DSH-Patton payroll process that leave DSH-Patton at risk of additional fraudulent or erroneous payments if not mitigated. An evaluation of an entity’s payroll process may identify deficiencies in its internal control over such a process. A deficiency in internal control 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 misstatements in financial information, impairments of effectiveness or efficiency of operations, or 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Based on our review, DSH-Patton has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, we found that DSH-Patton:

- Lacked adequate segregation of duties within its payroll transactions unit staff. This was aggravated by insufficient oversight to ensure that payroll transactions unit staff processes only authorized transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies. We believe that these material weaknesses in internal control over the payroll process contributed to one fraud incident disclosed to us by DSH-Patton that resulted in more than \$800,000 in false payments. Our review also found that these control weaknesses contributed to misstatements in leave balances and overpayments and underpayments in overtime compensation. Of the 98 employees we reviewed for leave balances, 25 (or 26%) had misstatements in balances that resulted in a net total overstatement of approximately \$27,834. Of the 23 employees we reviewed for overtime compensation, 3 were overpaid by approximately \$1,902 and 3 were underpaid by approximately \$1,219 due to incorrect pay rates and miscalculation of overtime hours.
- Did not adhere to its existing policies and procedures related to attendance reporting. We also found no indication that DSH-Patton performed adequate oversight to ensure that policies and procedures are implemented as prescribed. We believe that these material weaknesses in internal control over the payroll process contributed to another incident disclosed to us by DSH-Patton that resulted in more than \$100,000 in fraudulent payments. Our review of daily attendance records for 10 selected employees did not reveal any significant errors but we found concerning practices similar to the fraud incident. In our review of attendance records for 1 of the 10 employees, several individuals signed in, or out, for 2 to 5 other employees in a single work shift. These incidents occurred every day during the month in all three work shifts for one DSH-Patton unit. We also found that 4 of the 10 employees failed to sign in, or out, on at least one occasion. Further, in all instances, we found no indication that the supervisors reviewed daily attendance records and

verified the accuracy of each employee's hours when they signed the employees' timesheets.

- Did not adhere to its existing policies and procedures regarding out-of-class compensation. This was aggravated by DSH-Patton's insufficient oversight to ensure that policies and procedures are implemented as prescribed and out-of-class compensation is processed in accordance with collective bargaining agreements and state and DSH-Patton policies. Accordingly, 12 (or 44%) of the 27 assignments we reviewed, for 20 employees who received out-of-class compensation, lacked adequate supporting documentation for an approving official to properly review and approve the assignment. Of the 20 employees, 5 (or 25%) exceeded the limits set by collective bargaining agreements and state policy for out-of-class assignments, resulting in overpayments of approximately \$42,800. DSH-Patton also overpaid 3 of the 20 employees by approximately \$4,000 due to errors.

Views of Responsible Officials

We issued a draft review report on April 10, 2014. On behalf of DSH-Patton, Cindy Woolston, Chief, Office of Audits, California Department of State Hospitals (DSH), responded by letter dated May 16, 2014 (Attachment), disagreeing with the two findings. This final review report includes the DSH's response. We believe that the basis of DSH's disagreement with the two findings is incorrect or unsupported. Accordingly, we maintain our original view on the conclusions, findings, and recommendations we made regarding this review. Our full comments to the DSH's responses to each finding are included in the Findings and Recommendations section.

Restricted Use

This report is solely for the information and use of DSH-Patton 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 20, 2014

Findings and Recommendations

**FINDING 1—
Material weaknesses
in controls leave
DSH-Patton at risk
of additional fraud
or erroneous
payments**

DSH-Patton lacked adequate segregation of duties within its payroll transactions unit. This was aggravated by insufficient oversight to ensure that the payroll transactions unit processes only authorized transactions that comply with state laws, regulations, rules, and policies. We believe that these material weaknesses in internal control over the payroll process contributed to four employees perpetrating a payroll fraud scheme disclosed to us by DSH-Patton that resulted in more than \$800,000 in false payments. In addition, these control weaknesses contributed to misstatements in leave balances and overpayments and underpayments in overtime compensation. Of the 98 employees we reviewed for leave balances, 25 (or 26%) had misstatements in balances that resulted in a net total overstatement of approximately \$27,834. Of the 23 employees we reviewed for overtime compensation, 3 were overpaid by approximately \$1,902 and 3 were underpaid by approximately \$1,219 due to incorrect pay rates and miscalculation of overtime hours. Furthermore, DSH-Patton did not adhere to its existing policies and procedures related to attendance reporting. We also found no indication that DSH-Patton performed adequate oversight to ensure that these policies and procedures are implemented as prescribed. We believe that these material weaknesses in internal control over the payroll process contributed to another payroll fraud incident disclosed to us by DSH-Patton that resulted in more than \$100,000 in false payments. Our review of daily attendance records for 10 selected employees found concerning practices similar to the fraud incident. The attendance records for 1 of the 10 employees indicated that several individuals signed in, or out, for 2 to 5 other employees in a single work shift. These incidents occurred every day during the month in all three work shifts for one DSH-Patton unit. We also found that 4 of the 10 employees failed to sign in, or out, on at least one occasion. Further, in all instances, we found no indication that the supervisors reviewed daily attendance records and verified the accuracy of each employee's hours when they signed the employees' timesheets.

GC sections 13402 and 13403 mandate state agencies to establish and maintain internal accounting and administrative controls, including proper segregation of duties and an effective system of internal review. State agencies are responsible for ensuring that these controls are functioning as prescribed. If controls are maintained and reinforced through effective monitoring systems and processes, reasonable assurances can be given that measures adopted by agencies to check the accuracy and reliability of payroll accounting data and encourage adherence to prescribed policies are being followed.

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. An individual or small group of individuals should not be in a position to control all aspects of a transaction or business process, such as initiation, authorization, custody, and recording or reporting of transactions. In addition, control tasks such as review, audit, and reconciliation should not be performed by the same individual

responsible for recording or reporting the transaction. A system of internal review helps agencies assess the progress and performance of their employees, operations, and controls.

Lack of adequate segregation of duties and poor oversight of payroll transactions unit

At the start of our fieldwork, the DSH-Patton Human Resources Department's (HRD's) management disclosed to us that two payroll fraud incidents occurred involving their employees. The first incident involved three employees who colluded with a staff member of the payroll transactions unit to falsify payroll records for regular and overtime pay between August of 2007 and March of 2011, resulting in more than \$800,000 in false payments. The second incident involved an employee who falsified attendance records and was compensated more than \$100,000 in ineligible pay between January of 2007 and September of 2009. DSH-Patton's HRD and Office of Special Investigations (OSI) conducted internal audits and investigations of the two payroll fraud incidents. We reviewed the HRD audit workpapers for both incidents and the OSI report of the second incident as part of our planning for this review. We did not believe it was necessary to conduct substantial review work to reinvestigate the fraud incidents because it appears that the work performed by HRD and OSI was sufficient to uncover and report the fraud incidents to the California Department of Finance's Office of State Audits and Evaluation (OSAE) and the California State Auditor (CSA). The State Administrative Manual section 20080, requires State agencies to notify OSAE and CSA of all cases of actual or suspected fraud, theft, or irregularities they have become aware of either internally or by referral. Additionally, we did not want to interfere with any ongoing investigation or legal proceeding affecting DSH-Patton.

However, we performed additional limited procedures during our review period to determine whether there were additional payroll payment irregularities similar to the two fraud incidents. Our review did not reveal any additional fraudulent payroll payments. However, we are concerned that material weaknesses in internal controls over the payroll process are still present that leave DSH-Patton at risk of additional fraudulent or erroneous payments if not mitigated.

Our review did determine that DSH-Patton's HRD payroll transactions unit staff performed conflicting duties. The payroll transactions unit staff process all payroll transactions, including data entry into the State payroll system, maintenance of attendance records, certification of overtime and pay differential, and reconciliation of payroll including system output to source documentation. This lack of segregation of duties, i.e., internal control, was aggravated by the lack of adequate management oversight to ensure that the payroll transactions unit staff process only authorized transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies. For example, one of the employees who perpetrated the fraud, keyed in regular and overtime pay and handled the reconciliation of the payroll warrant register and attendance records. We found no indication that these functions were subjected to periodic supervisory review.

In addition, our review indicated that these material weaknesses in internal control over the payroll process contributed to misstatements in employees' leave balances. We reviewed the leave balances reflected in the leave accounting system for 98 selected employees and found 25 (or 26%) with misstatements that resulted in a net total overstatement of approximately \$27,834, as summarized in Table 2. Specifically, we found that:

- Ten employees had overstated holiday credit (HC) balances in the leave accounting system. Of the 10 employees, 7 received a total of 54 hours of HC in pay periods that had no holidays, in violation of collective bargaining contracts; 2 received excessive HC (1 employee was credited with 243 hours, instead of 24; and another employee was credited with 86 hours, instead of 8); and 1 employee had a balance overstated by 11 hours because HC used was entered as earned. In addition, 1 employee was charged 16 hours of HC although the attendance record did not indicate time used, resulting in an understatement of the HC balance in the system. Furthermore, 1 employee was credited 8 hours of HC that could not be verified because DSH-Patton could not provide the supporting documentation. The misstatements in HC resulted in a net total overstatement of approximately \$16,163.
- Four employees were credited 570 hours in compensating time off (CTO) in the leave accounting system, instead of the 482 hours that they should have received, resulting in a total overstatement of 88 hours. Another employee received 290 hours in CTO for which DSH-Patton could not provide supporting documentation. The misstatements and unsupported credit in CTO resulted in a total overstatement of approximately \$9,266.
- Three employees were credited more personal leave program (PLP) hours in the leave accounting system than they should have received, resulting in a total overstatement of 40 hours. Another employee had a negative PLP balance of 5 hours and was able to use this leave credit in a succeeding pay period. The misstatements in PLP hours resulted in a total overstatement of approximately \$1,181.
- Three employees who supplemented their non-industrial disability insurance (NDI) benefits had inaccurate reductions in applicable leave balances in the leave accounting system. Two of the 3 employees were charged a total of 104 hours for NDI supplementation, instead of 147 hours. The third employee was charged 42 hours for NDI supplementation, instead of 34 hours. The misstatements in applicable leave balances resulted in a net total overstatement of approximately \$945.
- One employee was credited more excess hours (EX) in the leave accounting system than the employee should have received, resulting in a total overstatement of 12 hours. Another employee was credited less EX than the employee should have received, resulting in an understatement of 2 hours. The misstatements in EX resulted in a net total overstatement of approximately \$279.

Table 2 – Summary of Misstatements in Leave Balances
For the Period from July 2010 through June 2013

Type of Leave	Number of Employees	Net Total Credits (Charges), in Hours			Estimated \$ Amount of Overstatement
		Per Leave Accounting System	Per Source Documentation	Net Overstatement	
Holiday credit	12	402	48	354 ^a	\$ 16,163 ^a
Compensating time off	5	860	482	378 ^b	9,266 ^b
Personal leave program	3	62	22	40	1,181
Annual leave	3	(146)	(181)	35	945
Excess hours	2	44	34	10	279
Total	25	1,222	405	817	\$ 27,834

Source: Our analysis of data obtained from the state payroll system and review of DSH-Patton's payroll records.

^a This difference includes eight hours with an estimated value of \$1,032 without documentation to support that the employee earned them.

^b This difference includes 290 hours with an estimated value of \$6,786 without documentation to support that the employee earned them.

We also reviewed 23 selected employees who received cash compensation for overtime. Of the 23 employees, 3 were overpaid by approximately \$1,902 and 3 were underpaid by approximately \$1,219. The overpayments for three employees were a result of incorrect pay rates and the miscalculation of overtime hours. For example, 2 employees were paid at one and one-half instead of the straight-time rate for 39 hours because the payroll transactions unit staff counted the use of leave and furlough days as time worked for purposes of computing overtime compensation, in violation of state law and policy. Another employee was compensated for more overtime hours than the employee earned. The underpayments for 3 employees were a result of the miscalculation of overtime hours.

Lack of adequate control over attendance reporting

Although an existing administrative directive include policies and procedures for attendance reporting, DSH-Patton failed to implement them consistently. Administrative Directive #4.05 requires all employees to sign in and out at a designated location as determined by the supervisor/program director/department head. The directive also requires supervisors to review timesheets for completeness and accuracy. However, the employee involved in the second fraud incident did not sign in, or out, of the areas the employee worked. The employee's timesheets were signed by several individuals, including a subordinate, without reviewing sign-in and -out records and verifying the employee's hours to ensure accuracy.

Our additional limited review of overtime payments for 10 selected employees did not reveal any significant errors. However, we are concerned that a material weakness in internal control over attendance reporting is still present and leaves DSH-Patton at risk of additional fraudulent or erroneous payments if not mitigated. Specifically, our review of daily attendance records for 1 of the 10 employees indicated that several individuals signed in, or out, for 2 to 5 other employees in a

single work shift. These incidents occurred every day during the month in all three work shifts for one DSH-Patton unit. In one instance, an individual's initial appeared in all three shifts in one day. In addition, we found that 4 of the 10 employees failed to sign in, or out, on at least one occasion. The timesheet for 1 of the 4 employees was also not signed by the supervisor. Further, in all instances, we found no indication that the supervisors reviewed daily attendance records and verified the accuracy of each employee's hours.

Recommendation

To help prevent improper payroll payments from recurring, DSH-Patton should do the following:

- Separate conflicting payroll function duties to the extent possible, considering the limited number of employee involved. The segregation of duties will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another. Good internal control practices require that the three functional duties should 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 reviews and reconciliation of actual payments to recorded amounts.* This duty refers to making comparisons at regular intervals and taking action to resolve differences.

In permissible instances where payroll functions cannot be fully and appropriately segregated due to specific circumstances, DSH-Patton should implement mitigating controls to compensate for such situations. For example, if the payroll transactions unit staff responsible for record-keeping also performs a reconciliation process, a detailed review of the reconciliation could be performed and documented by the supervisor to provide additional control over the assignment of conflicting functions. Mitigating controls may also include dual-authorization requirements and documented reviews of payroll system input and output.

- Provide adequate oversight to ensure that personnel office staff processes only authorized payroll transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies.
- Implement existing policies and procedures prescribed by Administrative Directive #4.05 regarding attendance reporting. DSH-Patton should conduct ongoing monitoring of controls to ensure they are implemented and operating effectively.

In addition, DSH-Patton should conduct a review of the leave accounting system for the past three years to ensure that employees' leave balances are accurate and holiday credits are in compliance with collective bargaining agreements. DSH-Patton should adjust employees' balances in the leave accounting system to correct any misstatements in recording leave transactions. To prevent misstatements in recording leave transactions in the accounting system from recurring, DSH-Patton should do the following:

- Provide adequate oversight to ensure that payroll transactions unit staff accurately record leave transactions.
- Provide training to payroll transactions unit staff involved in keying transactions into the leave accounting system to ensure that they understand the requirements under collective bargaining agreements and state law regarding leave credits.

Summary of the DSH's Response

The DSH acknowledged that this report identifies the material weaknesses in internal control over the DSH-Patton payroll process. The DSH stated that it is the DSH's strong belief that the fraud incidents should not be "embedded" in the report findings. It argued that both fraud incidents were discovered and reported by DSH-Patton staff. The DSH also asserted that it is not appropriate to state that the material weaknesses contributed to both fraud incidents. The DSH stated that it would be difficult to determine what caused and/or contributed to the two incidents without a detailed analysis and the tools used to discover the fraudulent activities.

The DSH agreed that DSH-Patton had some calculation errors in overtime compensation, but that it was an error rate of less than 1%. The DSH, however, stated that the report was not clear on the methodology used to select the number of employees for review. The DSH believes that the selection process may have provided incorrect findings that do not represent the payroll transaction internal controls in place at DSH-Patton. The DSH also stated that the overstatements in leave balances would have been identified by DSH-Patton staff during random audits performed by Human Resources personnel.

The DSH agreed that DSH-Patton should have tighter controls over employees signing into/out of work and appropriate supervision approval/review. However, the DSH does not believe that a sample of 10 employees is sufficient to provide a finding that DSH-Patton lacks adequate control over attendance reporting.

See Attachment A for DSH's full response.

SCO's Comments

The DSH is incorrect in its assertion that (i) the information regarding both incidents should not be included in this review report and (ii) it is not appropriate to state that the material weakness in internal control over the DSH-Patton payroll process contributed to both fraud incidents.

The relevant information regarding both fraud incidents that was included in this report is relevant and significant to address our review objectives. To address our review objectives and support the findings and conclusions, we performed adequate review procedures and obtained sufficient and appropriate evidence, including those that were relevant and significant in developing the elements of the findings in this report. Identifying an effect or potential effect is one of those elements. The effect is a clear, logical link that establishes the impact or potential impact of the difference between the existing situation and the required or desired state. The effect or potential effect identifies the outcomes or consequences of the condition. The relevant information regarding both fraud incidents provides proper perspective for the consequences of the material weakness in internal control over the DSH-Patton payroll process. It is worth noting that the DSH appears to have commented on the design and scope of our review procedures without observation of our work.

The DSH is incorrect about our selection method and the number of selections. We determined that the use of targeted selection and the number of selections in our review are sufficient and appropriate to support this finding. It appears that the DSH misunderstood targeted selection as a representative sampling methodology. We included, for clarity, additional description of our selection method in the methodology section. Sampling does not apply to all procedures for testing controls. Sampling generally is not applicable to procedures for determining the adequate segregation of duties or procedures that do not examine documentary evidence of performance. As a case in point, sampling is not applicable in our determination for DSH-Patton's segregation (or the lack thereof) of duties over payroll process. Sampling may not also apply to procedures directed toward obtaining evidence about the design effectiveness of an internal control, such as our evaluation of DSH-Patton's control over attendance reporting.

We provided the details (i.e., periods, employees, and amounts reviewed) of this finding to DSH-Patton but the DSH did not indicate how it was able to re-perform our review procedures. The DSH did not provide additional source documentation to support its position regarding the amounts and percentages of overstatements in leave balances and overpayments and underpayments in overtime compensation. During the exit conference and prior to issuance of the draft review report, the finding was presented to DSH-Patton for comments. In an email dated February 13, 2014, DSH-Patton responded and agreed with the finding.

In response to the DSH's statement that overstatements in leave balances would have been identified by DSH-Patton staff, the transactions that led to these overstatements were spread during the three fiscal years ended June 30, 2013. Some of these transactions were approximately three years old.

In conclusion, the finding remains.

**FINDING 2—
Inadequate controls
resulted in improper
payments for out-of-
class assignments**

DSH-Patton did not adhere to its existing policies and procedures regarding out-of-class compensation. This was aggravated by DSH-Patton’s insufficient oversight to ensure that policies and procedures are implemented as prescribed and out-of-class compensation is processed in accordance with collective bargaining agreements and state and DSH-Patton policies. Accordingly, 12 (or 44%) of the 27 assignments we reviewed, for 20 employees who received out-of-class compensation between July of 2010 and June of 2013, lacked adequate supporting documentation for an approving official to properly review and approve the assignment. Of the 20 employees, 5 (or 25%) exceeded the limits set by collective bargaining agreements and state policy for out-of-class assignments, resulting in total overpayment of approximately \$42,800. DSH-Patton also overpaid 3 of the 20 employees by approximately \$4,000 due to errors.

12 (or 44%) of 27 out-of-class assignments reviewed lacked adequate supporting documentation for an approving official to properly review and approve the assignment

Our review revealed that for the period from July 2010 through June 2013, DSH-Patton made payments to 305 employees for out-of-class compensation. We selected 20 employees with a total of 27 out-of-class assignments for review. Of the 27 assignments, 12 (44%) lacked sufficient documentation for an approving official to properly review and approve the assignment. Specifically, 5 had no duty statements or written justification, 3 had only duty statements and no written justification, and 4 had only written justification and no duty statement. Nineteen of 27 assignments also had no organization charts. In addition, 22 of the 27 assignments had assignment approvals that were not approved in advance of the start date.

DSH-Patton’s Administrative Directive #4.04 states, in part:

. . . . The supervisor requests the employee, in writing and in advance of the assignment, to perform the duties of a higher class. . . .

. . . . The Department Head/Program Director may request approval for an out-of-class assignment by completing a MH 5408 and attaching an out-of-class request. The request must contain the following information and attachments:

- Employee's current classification duty statements and organizational chart.
- Employee's proposed out-of-class assignment duty statement and organizational chart.
- Complete and accurate justification which identifies the operational need for the assignment.
- A copy of the written notice to be given to the employee indicating the effective date of the assignment.

The out-of-class assignment request must be approved by the Director of Human Resources (DHR) before the duties are assigned to the employee. . . .

5 (or 25%) of 20 employees reviewed for out-of-class compensation exceeded limits set by collective bargaining agreements and state policy, resulting in overpayments

We performed further review to determine whether employees received out-of-class compensation in excess of the number of days allowed by their collective bargaining agreements or state policy. Our review revealed that 4 of the 20 employees had out-of-class assignments that exceeded the 120-day limit set by collective bargaining agreements. Of the 4 employees, 1 was in an agreement that restricts an employee’s out-of-class assignment to 120 days and three were in agreements that allow assignment beyond 120 days but DSH-Patton did not have approval from the California Department of Human Resources (CalHR), in violation of collective bargaining agreements. Accordingly, DSH-Patton overpaid 4 employees by approximately \$38,500 for out-of-class assignments exceeding 120 days. In addition, another employee who was excluded from collective bargaining had an assignment that exceeded one year, in violation of state policy. Total estimate of out-of-class compensation exceeding one year is \$4,300. Overall, DSH-Patton overpaid approximately \$42,800 for out-of-class compensation to 5 employees whose assignments exceeded limits set by collective bargaining agreements and state policy.

Pursuant to CalHR Policy Memo (formerly PML) #2007-026, departments have delegated authority to approve out-of-class assignments for excluded employees up to one year. The policy memo instructs departments to refer to the collective bargaining agreements for represented employees.

CalHR’s *California State Civil Service Pay Scales* section 14, Pay Differential 101 states:

Employees shall not be assigned nor receive out-of-class compensation for more than one year.

The collective bargaining agreement between the State and unit 3 restricts represented employees up to 120 calendar days of out-of-class work in any 12 consecutive calendar months. The collective bargaining agreements between the State and units 16 and 19 include the following provisions:

<u>Unit</u>	<u>Section</u>	<u>Collective bargaining agreement states, in part...</u>
16	12.11.A An employee may be assigned to work out of class for more than 120 consecutive days only with approval of the Department of Personnel Administration (DPA). . . .
19	15.3.A An employee may be assigned to work out of class for more than 120 consecutive days only with the approval of the Department of Personnel Administration (DPA). . . .

Errors in out-of-class compensation, resulting in overpayments

During our review of out-of-class compensation for 20 employees, we also found errors that resulted in overpayment to employees. In one case, an employee received full out-of-class compensation while also receiving payments for non-industrial disability insurance (NDI) for three pay periods, resulting in overpayment of approximately \$547. Out-of-class compensation is calculated by multiplying the out-of-class rate by the number of days or hours worked. If the employee works an entire pay period during an out-of-class assignment, that employee is entitled to the full out-of-class compensation for that period. However, when an employee is on NDI, that employee is not working full-time and should not receive full out-of-class compensation for the pay period. *California State Civil Service Pay Scales* section 14 provides that out-of-class compensation will not be used to calculate NDI. In another case, an employee received out-of-class compensation for the entire pay period but supporting documentation indicates the employee was on out-of-class assignment for just one day during the period. This resulted in overpayment of approximately \$705. In addition, another employee's out-of-class compensation was erroneously calculated, resulting in overpayment of approximately \$2,748. Errors occurred because the number of days paid was overstated and the out-of-class compensation was not adjusted when the employee earned a salary increase during the assignment. Overall, DSH-Patton overpaid approximately \$4,000 to three employees due to errors.

Significant control deficiencies over DSH-Patton's processing of out-of-class compensation

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review. State agencies are also responsible for ensuring that these controls are functioning as prescribed. However, our review of out-of-class compensation revealed significant control deficiencies that leave DSH-Patton at risk of additional improper payments and practices if not mitigated. Specifically, our review revealed that:

- Administrative Directive #4.04 includes policies and procedures for processing out-of-class assignment and compensation; however, DSH-Patton failed to implement them consistently. For example, in some instances, payroll transactions unit staff processed out-of-class compensation for assignments that exceeded limits set by collective bargaining agreements or without approval from CalHR. In other instances, DSH-Patton could not provide documentation to support proper justification, review, and authorization of several out-of-class assignments and compensation. Further, most of the assignments we reviewed were not approved before the duties were assigned to the employee.
- DSH-Patton did not provide sufficient oversight to ensure that the processing of out-of-class compensation complies with collective bargaining agreements and state and DSH-Patton policies.

Recommendation

DSH-Patton should conduct a review of out-of-class compensation for the past three years to ensure that it complies with collective bargaining agreements and state policy. If DSH-Patton made overpayments to employees, it should seek reimbursement through an agreed-upon collection method in accordance with California Government Code section 19838.

To prevent improper out-of-class compensation from recurring, DSH-Patton should do the following:

- Implement existing policies and procedures prescribed by Administrative Directive #4.04 regarding out-of-class assignments and compensation. DSH-Patton should conduct ongoing monitoring of controls to ensure they are consistently implemented and operating effectively.
- Provide adequate oversight to ensure that payroll transactions unit processes only authorized out-of-class compensation that complies with collective bargaining agreements and state and DSH-Patton policies.

Summary of DSH's Response

The DSH disagreed with the number of employees reviewed who lacked proper documentation to support out-of-class compensation. The DSH also disagreed that employees exceeded the 120-day limit set by collective bargaining agreements for out-of-class assignments. The DSH disagreed that DSH-Patton overpaid employees for out-of-class compensation because the labor contract required DSH-Patton to pay applicable compensation to employees performing job duties at a higher level classification. The DSH agreed that three employees received overpayments due to errors in out-of-class compensation. However, the DSH provided a different amount of overpayments.

See Attachment A for DSH's full response.

SCO's Comments

We provided the details (i.e., periods, employees, and amounts reviewed) of this finding to DSH-Patton but the DSH did not indicate how it was able to re-perform our review procedures. The DSH did not provide additional documentation to support its position regarding assignments that lacked adequate supporting documentation and employees exceeding the limits set by collective bargaining agreements and state policy for out-of-class assignments that resulted in overpayments, and errors in out-of-class compensation. In several occasions during the course of our review engagement and prior to issuance of the draft review report, we communicated this finding and requested supporting documentation from DSH-Patton. In an email dated October 3, 2013, DSH-Patton responded that it has no approval from CalHR for employees exceeding the 120-day limit. In another email dated February 13, 2014, DSH-Patton responded but did not provide any supporting documentation to out-of-class

assignments. Also, in another email dated March 7, 2014, DSH-Patton responded that it had no additional documentation or information regarding out-of-class compensation. Therefore, the finding remains.

**Attachment A—
California Department of State Hospitals’
Response to Draft Review Report**

OFFICE OF AUDITS1600 Ninth Street
Sacramento, CA 95814

May 16, 2014

Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

The Department of State Hospitals (DSH) has received the California State Controller Division of Audits (SCO) draft report on payroll controls at DSH Patton State Hospital (Patton) dated April 10, 2014. As agreed an extension of time to submit DSH comments regarding the findings was granted to May 16, 2014.

The report identifies internal control weaknesses in the areas of payroll transactions, attendance reporting, and out-of-class compensation.

Our recently formed DSH Office of Audits will work with appropriate staff at the facility to identify the systemic causes of internal control deficiencies and implement additional controls, or compensating controls, as applicable. Specifically, existing policies and procedures will be emphasized and adhered to.

It is our strong belief that the fraud incidents that were previously self-reported by DSH-Patton to the Department of Finance should not be imbedded in the report findings. SCO staff performed a cursory review of historical documents that disclosed one fraud incident involving collusion and one incident that involved falsified documents. Both these incidents of fraud were discovered and reported by diligent Patton staff. It would be difficult to determine what caused and/or contributed to the two incidents at Patton without a detailed analysis of both fraud incidents and the tools used to discover the fraudulent activities. Therefore, to state that the internal control weaknesses identified in the April 10, 2014 draft report "contributed to" both incidents is not appropriate.¹ It appears to us that a casual reader might assume that the SCO audit work is related to the detection of the fraud incidents and overstates the value of the SCO audit findings.

¹ The SCO report uses identical verbiage to note the prior fraud incidents 8 times in the report. In addition, the report has duplicative identical paragraphs "cut and pasted" in various sections of the report. For example, bullets identifying findings are placed in the document 3 times-Cover Letter, Review Report Summary and Conclusion.

RESPONSE FINDING 1: Material weaknesses in controls leave DSH-Patton at risk of additional fraud or erroneous payments:

We do not agree with all of the findings identified by SCO. The report was not clear on the methodology used to select the number of employees for audit (98). We believe the selection process may have provided incorrect findings that do not represent the payroll transaction internal controls in place at Patton. While we agree that Patton did have some calculation errors in overtime compensation it was an error rate of less than 1%. In addition, the overstatements in leave balances would have been identified by Patton staff during random audits performed by personnel supervisors, personnel analysts, HR managers, or labor relations analysts.

Plans are in place to collect all overpayments identified by SCO from employees within 30 days from the date of this response. Amounts due to employees will be issued within 30 days from the date of this response.

The following table provides a summary of our findings. The revised amounts by DSH are based on a review of the same transactions SCO tested:

Per SCO or DSH	Finding Number	Number of Employee Selections	\$ Amount Selections Reviewed	Number of Sections with Issues	Issues as a percentage of Selections Reviewed	Approximate \$ Amt	\$ Amt of Issues as a Percentage of \$ Amount of Selections Reviewed	DSH Agree/Disagree
Per SCO Audit	Overstatements in leave balances	98	\$159,501	25	26%	\$27,834	17%	Disagree.
Revised Per DSH	Overstatements in leave balances	98	\$159,501	24	24%	\$19,634	12%	SCO should reduce overstatement by -\$8,200
Per SCO Audit	Overpayments in overtime compensation	98		3	13%	\$1,902	1%	Disagree.
Revised Per DSH	Overpayments in overtime compensation	98		3	13%	\$869	Less than 1%	SCO should reduce overstatement by -\$1,033
Per SCO Audit	Underpayment in overtime compensation	23		3	13%	-\$1,219	-1%	Disagree.
Revised Per DSH	Underpayment in overtime compensation	23		3	13%	-\$862	Less than 1%	SCO should reduce overstatement by \$357
Per SCO Audit	Lack of adequate internal Control over attendance reporting	10		10	100%			DSH agrees.

We do agree that Patton should have tighter controls over employees signing into/out of work and appropriate supervision approval/review. However, we do not believe that a sample of 10 employees is sufficient to provide a finding that Patton lacks adequate control over attendance reporting.

Patton has policy in place to hold supervisors accountable for approving time worked by applicable staff. This policy is discussed in regular supervisors meetings and in the recently developed/implemented DSH Time Keeping Manual.

RESPONSE FINDING 2: Inadequate controls resulted in improper payments for out-of-class assignments.

We do not agree that 14 (or 52%) out of the 27 employees audited lacked proper documentation to support out-of-class compensation. We found that only 5 (or 19%) out of 27 employees audited lacked proper documentation to support out-of-class compensation.

We do not agree that 6 out of 20 employees reviewed exceeded the collective bargaining unit agreements. The audit period selected by SCO (July 1, 2010 through June 30, 2013) was a challenging time for state agencies with furloughs, layoffs and a hiring freeze. Patton followed DSH protocol for out-of-class assignments beyond a 120 day period. The process included obtaining DSH labor relations review and approval. This documentation was provided to SCO audit staff.

DSH did not overpay the six (6) employees by \$42,800 (Row 3 of the Table below) because the labor contract required DSH to pay applicable compensation to employees performing job duties at a higher level classification. The employees performed the job duties. The 6 employees paid beyond 120 days filled positions that, if vacant, would have created licensing and accreditation issues at Patton. These positions were mission critical and could not be filled due to various external statewide conditions. DSH was forced during this time frame to implement internal processes necessary to provide 24 hour levels of patient care which included an in-house approval process for out-of-class assignments beyond 120 days. DSH worked with applicable contract labor unions to ensure that all contract labor laws were appropriately followed.

We agree that 3 (or 2%) out of the 20 employees selected for audit contained computational errors of \$3,563. Plans are in place to collect all overpayments identified by SCO from employees within 30 days from the date of this response.

The following table provides a summary of our findings. The revised amounts by DSH are based on a review of the same transactions SCO tested.

Per SCO or DSH	Finding Number	Number of Employee Selections	\$ Amount of Selections Reviewed	Number of Sections with Issues	Issues as a percentage of Selections Reviewed	Approximate \$ Amt	\$ Amt of Issues as a Percentage of \$ Amount of Selections Reviewed	DSH Agree or Disagree DIFF In \$ From SCO to DSH
Per SCO Audit	Lack of Proper documentation to support out-of-class compensation	27		14	52%			
<i>Revised Per DSH</i>	Lack of Proper documentation to support out-of-class compensation	27		5	19%			Disagree. Documentation was available to support out-of-class for 9 of the employees audited. Agree that 5 were missing some documents.
Per SCO Audit	Overpayments in out-of class compensation- Employees Exceeded Collective Bargaining Unit Agreements	20	\$178,542	6	30%	\$42,800	26%**	Disagree. In house review approval for out-of-class assignments beyond 120 days.
Per SCO Audit	Overpayments in out-of class compensation- Employees that had errors	20	\$178,542	6	30%	\$4,001	26%**	Disagree.
<i>Revised Per DSH</i>	Overpayments in out-of class compensation- Employees that had errors	20	\$178,542	3	15%	\$3,563	2%	SCO should reduce the amount by \$392.52. SCO should revise the percentage to reflect only 3 with errors not 6.

** Per SCO this percentage is the total of $(\$42,800 + \$4,001) / \$178,542 = 26\%$

Thank you for the opportunity to respond to your draft report. If you have any questions, please contact me at (916) 651-9984.

Sincerely,



Cindy Woolston, Chief
Office of Audits

cc: Mr. Cliff Allenby, Acting Director
California Department of State Hospitals-Sacramento
Mr. Harry Oreol, Acting Executive Director
California Department of State Hospitals-Sacramento
Mr. Mark Beckley, Deputy Director, Administrative Services,
California Department of State Hospitals-Sacramento
Mr. Rob Cook, Chief Operating Officer
California Department of State Hospitals-Sacramento
Ms. Irene Briggs, Chief Financial Officer,
California Department of State Hospitals-Sacramento
Ms. Nitin Kuikarni, MD, Acting Medical Director
California Department of State Hospitals-Patton
Ms. Blanche Sherer, Hospital Administrator
California Department of State Hospitals-Patton
Ms. Nancy Varela, Human Resources Director
California Department of State Hospitals-Patton

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>