

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Audit Report

PAYROLL AUDIT

March 1, 2017, through February 29, 2020



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

January 2025



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

January 15, 2025

Dr. Luke Wood, President
California State University, Sacramento
6000 J Street
Sacramento, CA 95819

Dear Dr. Wood:

This is the final report on our audit of the California State University, Sacramento's payroll process and transactions for the period of March 1, 2017, through February 29, 2020. The audit was conducted pursuant to Government Code sections 12476 and 12410.

California State University, Sacramento management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

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

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/ac

Dr. Luke Wood
January 15, 2025
Page 2 of 2

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Contents

Audit Report

Summary	1
Background	1
Audit Authority.....	1
Objectives, Scope, and Methodology	2
Conclusion	3
Follow-up on Prior Audit Findings.....	4
Views of Responsible Officials.....	4
Restricted Use	4
Schedule—Summary of Audit Results.....	5
Findings and Recommendations.....	6
Appendix—Audit Sampling Methodology.....	A1
Attachment—California State University, Sacramento’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the California State University, Sacramento's (CSUS) payroll process and transactions for the period of March 1, 2017, through February 29, 2020.

CSUS management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our audit determined that CSUS did not:

- Maintain adequate and effective internal controls over certain aspects of its payroll process, as described in Findings 1 through 5;
- Process payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures in certain instances, as described in Findings 2 through 4; or
- Administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures, as described in Finding 5.

Background

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

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

Audit Authority

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

Objectives, Scope, and Methodology

We performed this audit to determine whether CSUS:

- Maintained adequate and effective internal controls over its payroll process;
- Processed payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; and
- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

The audit covered the period from March 1, 2017, through February 29, 2020. The audit population consisted of payroll transactions totaling \$634,140,171, as quantified in the Schedule.

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

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a

reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Our audit determined that CSUS did not maintain adequate and effective internal controls over its payroll process;¹ did not process payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; and did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

We found deficiencies in internal control over the payroll process that we consider to be material weaknesses, and instances of noncompliance with the requirements of collective bargaining agreements and state laws, regulations, policies, and procedures. The material weaknesses and instances of noncompliance are as follows:

- CSUS had inadequate segregation of duties and a lack of compensating controls over payroll transactions (see Finding 1).
- CSUS overpaid three of 105 (3%) employees whose separation lump-sum payments that we examined by a total of \$910, and underpaid 22 of 105 (21%) employees by a total of \$13,830. We projected an additional \$5,753 in overpayments and \$87,393 in underpayments. In addition, CSUS did not make separation lump-sum payments to 47 of 105 (45%) employees in a timely manner (see Finding 2).
- CSUS overpaid one of 113 overtime pay transactions that we examined by \$62 and underpaid two of 113 overtime transactions by \$67. We projected an additional \$2,573 in overpayments and \$2,753 in underpayments. In addition, timesheets were not consistently maintained for overtime payments. Based on our audit testing, we estimated that 2% of the timesheets associated with the audit period had not been retained. We identified \$903 and projected an additional \$37,316 in unsupported overtime payments (see Finding 3).
- CSUS overpaid four of 105 settlement pay transactions that we examined by \$397 and underpaid one of 105 transactions by \$280. We

¹ In planning and performing our audit of compliance, we considered CSUS's internal control over compliance with collective bargaining agreements and state laws, regulations, policies, and procedures to determine the auditing procedures that were appropriate under the circumstances for the purpose of providing a conclusion on compliance, and to test and report on internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this footnote; it was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. As discussed in this section, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design, implementation, or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

projected an additional \$6,978 in overpayments and \$4,924 in underpayments (see Finding 4).

- CSUS had inadequate controls to ensure that salary advances were administered in accordance with requirements and collected in a timely manner. Seven salary advances, totaling \$5,413, remained outstanding for more than 200 days as of February 29, 2020 (see Finding 5).

Follow-up on Prior Audit Findings

We have not previously conducted an audit of CSUS's payroll process and transactions.

Views of Responsible Officials

We issued a draft audit report on September 10, 2024. CSUS's representative responded by letter dated September 30, 2024, agreeing with the audit results. This final audit report includes CSUS's response as an attachment.

Restricted Use

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

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

January 15, 2025

**Schedule—
Summary of Audit Results
March 1, 2017, through February 29, 2020**

Audit Area Tested	Method of Selection	Number of Units of Population	Dollar Amount of Population	Number of Selections Examined	Dollar Amount of Selections Examined	Net Total Dollar Amount of Identified Improper Costs	Net Total Dollar Amount of Projected Improper Costs and Identified and Projected Unsupported Costs	Finding Number
Segregation of duties	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
System access	Targeted	10	N/A	10 Employees	N/A	N/A	N/A	
Regular pay	Statistical	170,979	\$ 592,894,238	77 Transactions	\$ 253,294	\$ -	\$ -	
Excess vacation	Targeted	117	348,875	10 Employees	96,620	-	-	
Separation lump-sum pay	Statistical	720	3,956,915	105 Employees	540,645	(12,920)	(81,640)	2
Overtime pay	Statistical and targeted	4,187	2,574,106	113 Transactions	68,858	283	38,039	3
Settlement pay	Statistical	1,601	5,251,232	105 Transactions	282,557	117	2,054	4
Emergency pay	Statistical	7,674	29,108,967	105 Transactions	267,456	-	-	
Salary advance	Targeted	8	5,838	8 Transactions	5,838	5,413	-	5
			\$ 634,140,171		\$ 1,515,268	\$ (7,107)	\$ (41,547)	

Findings and Recommendations

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

CSUS lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. CSUS also failed to implement other controls to compensate for this risk.

Our audit found that CSUS payroll transactions unit staff performed conflicting duties. Staff members performed multiple steps in processing payroll transactions, including entering data into the State's payroll system; auditing employee timesheets; calculating payments; reconciling payroll, including reconciling system output to source documentation; reporting payroll exceptions; and processing adjustments. For example, staff members keyed in regular and overtime pay, and reconciled the master payroll, overtime, and other supplemental warrants. CSUS failed to demonstrate that it had implemented compensating controls to mitigate the risks associated with such a deficiency. We found no indication that these functions were subjected to periodic supervisory review.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the CSUS payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. These control deficiencies, in combination with other deficiencies discussed in Findings 2 through 5, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a material noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.

Good internal control practices require that the following functional duties be performed by different work units, or at minimum, by different employees within the same unit:

- *Recording transactions* – This duty refers to the record-keeping function, which is accomplished by entering data into a computer system.
- *Authorization to execute* – This duty belongs to individuals with authority and responsibility to initiate and execute transactions.
- *Periodic review and reconciliation of actual payments to recorded amounts* – This duty refers to making comparisons of information at regular intervals and taking action to resolve differences.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including proper segregation of duties and an effective system of internal review. Adequate segregation of duties reduces the likelihood that fraud or error will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed.

Recommendation

We recommend that CSUS:

- Separate conflicting payroll function duties to the greatest extent possible. Adequate segregation of duties will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another.

If it is not possible to segregate payroll functions fully and appropriately, CSUS should implement compensating controls. For example, if the payroll transactions unit staff member responsible for recordkeeping also performs a reconciliation process, then the supervisor should perform and document a detailed review of the reconciliation to provide additional control over the assignment of conflicting functions. Compensating controls may also include dual authorization requirements and documented reviews of payroll system input and output; and

- Develop formal procedures for performing and documenting compensating controls.

FINDING 2— Improper and late separation lump- sum payments

CSUS lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of employee separation lump-sum pay. CSUS also lacked adequate supervisory review to ensure accurate and timely processing of separation lump-sum pay.

Payroll records show that CSUS processed separation lump-sum payments, totaling \$3,956,915, for 720 employees between March 2017 and February 2020. We randomly selected a statistical sample (as described in the Appendix) of 105 employees who received separation lump-sum payments, totaling \$540,645. Based on our examination of the selected records, we found the following errors:

- CSUS overpaid three of 105 (3%) employees by \$910 and underpaid 22 of 105 (21%) employees by \$13,830 because payroll transactions unit staff members miscalculated the leave credits associated with separation lump-sum pay. In addition, CSUS lacked adequate supervisory review to ensure accurate processing of separation lump-sum pay. We projected an additional \$5,753 in overpayments and \$87,393 in underpayments.
- CSUS did not make separation lump-sum payments to 47 of 105 (45%) employees in a timely manner.

If not mitigated, these control deficiencies leave CSUS at risk of making additional improper and late separation lump-sum payments, noncompliance with agreements and laws, and liability for late payments.

Statistical sampling results

The identified improper payments represent a net total underpayment of \$12,920.

We used a statistical sampling method to select the employees whose separation lump-sum payments we examined. We projected an additional \$5,753 in overpayments and \$87,393 in underpayments. The projected improper payments represent a net total underpayment of \$81,640.

The identified and projected underpayments totaled a net of approximately \$94,560, consisting of \$6,663 in overpayments and \$101,223 in underpayments.

The following table summarizes the results of our statistical sampling (amounts are rounded to the nearest dollar):

Identified underpayments, net	\$ 12,920
Divide by: Sample	540,645
Error rate for projection (differences due to rounding)	<u>2.39%</u>
Population that was statistically sampled	\$ 3,956,915
Multiply by: Error rate for projection	<u>2.39%</u>
Identified and projected underpayments, net (differences due to rounding)	94,560
Less: Identified underpayments, net	<u>12,920</u>
Projected underpayments, net	<u>\$ 81,640</u>

Criteria

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

Education Code section 89504 allows lump-sum payment for accrued eligible leave credits when an employee separates from state employment. Collective bargaining agreements include similar provisions regarding separation lump-sum pay.

Recommendation

We recommend that CSUS:

- Establish adequate controls to ensure that separation lump-sum payments are calculated accurately and made in a timely manner;
- Conduct a review of separation lump-sum payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law;
- Recover any overpayments made to separated employees through an agreed-upon collection method in accordance with Chapter 28, “Accounts Receivable,” of the California State University (CSU) *Legal Manual*; and
- Properly compensate those employees who were underpaid.

**FINDING 3—
Improper payments
and missing
timesheets for
overtime pay**

CSUS lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls over the processing of overtime pay, and adequate supervisory review to ensure accurate processing of overtime pay transactions.

Payroll records show that CSUS processed 4,187 overtime pay transactions, totaling \$2,574,106, between March 2017 and February 2020, as follows (amounts are rounded to the nearest dollar):

Overtime Payment Type by Group	Unit	Amount
Non-exempt under the Fair Labor Standards Act (statistically sampled)	4,179	\$ 2,565,862
Exempt under the Fair Labor Standards Act (items examined 100%)	8	8,244
Total population	<u>4,187</u>	<u>\$ 2,574,106</u>

There were 4,179 transactions for employees who are considered non-exempt under the Fair Labor Standards Act; and eight transactions for exempt employees (i.e. those who are not eligible for overtime pay, except when there are special considerations).

We randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$60,614, for non-exempt employees. We also selected a targeted sample of the eight overtime pay transactions, totaling \$8,244, for exempt employees. Based on our examination of these selected transactions, we found the following errors:

- Two transactions were overpaid by \$350 and two were underpaid by \$67 because payroll transactions unit staff members used an incorrect salary rate; and paid for overtime hours worked at the straight-time rate instead of the time-and-a-half rate, or vice-versa. In addition, CSUS lacked adequate supervisory review to ensure accurate processing of overtime pay. We projected an additional \$2,573 in overpayments and \$2,753 in underpayments.
- Two transactions, totaling \$903, were unsupported because payroll transactions unit staff members could not locate the supporting documentation (timesheets and calculations). We could not determine the validity, accuracy, and propriety of the payments made to the employees; or the completeness and accuracy of leave accounting records. We projected an additional \$37,316 in unsupported payments.

If not mitigated, these control deficiencies leave CSUS at risk of making additional improper and unsupported overtime payments.

Statistical sampling results

The identified improper and unsupported payments to non-exempt employees represent a net total of \$898.

We used a statistical sampling method to select the overtime pay transactions that we examined. We projected an additional \$2,573 in overpayments and \$2,753 in underpayments; we also projected an additional \$37,316 in unsupported payments. The projected improper and unsupported payments represent a net total of \$37,136.

The identified and projected improper and unsupported payments totaled a net of approximately \$38,034, consisting of \$2,635 in overpayments, \$2,820 in underpayments, and \$38,219 in unsupported payments.

The following table summarizes the results of our statistical sampling (amounts are rounded to the nearest dollar):

Identified improper and unsupported payments, net	\$ 898
Divide by: Sample	<u>60,614</u>
Error rate for projection (differences due to rounding)	<u>1.48%</u>
Population that was statistically sampled	\$ 2,565,862
Multiply by: Error rate for projection	<u>1.48%</u>
Identified and projected improper and unsupported payments, net (differences due to rounding)	38,034
Less: Identified improper and unsupported payments, net	898
Projected improper and unsupported payments, net	<u>\$ 37,136</u>

Criteria

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including a system of policies and procedures adequate to ensure compliance with applicable laws and other requirements, and an effective system of internal review.

Collective bargaining agreements and Education Code section 89502 contain specific clauses regarding overtime pay.

CSUS's General Retention Schedule for Payroll/Personnel Records specifies a four-year retention period for timesheets.

Recommendation

We recommend that CSUS:

- Conduct a review of overtime payments made during the past three years to ensure that the payments complied with collective bargaining agreements and state law;
- Recover any overpayments made to employees through an agreed-upon collection method in accordance with Chapter 28, "Accounts Receivable," of the CSU *Legal Manual*; and
- Properly compensate those employees who were underpaid.

We further recommend that, to prevent improper overtime payments from recurring, CSUS:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state law;
- Provide adequate oversight to ensure that payroll transactions unit staff members process only valid and authorized payments that comply with collective bargaining agreements and state law; and
- Maintain supporting documentation for payments, pursuant to its retention policies.

**FINDING 4—
Improper settlement
payments**

CSUS lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls over the processing of settlement pay, and adequate supervisory review to ensure accurate processing of settlement pay.

Payroll records show that CSUS processed 1,601 settlement pay transactions, totaling \$5,251,232, between March 2017 and February 2020. We randomly selected a statistical sample (as described in the Appendix) of 105 settlement pay transactions, totaling \$282,557. Based on our examination of the selected transactions, we found that CSUS overpaid four settlement payments by approximately \$397 and underpaid one settlement payment by approximately \$280 because payroll transactions unit staff members miscalculated the payments. We projected an additional \$6,978 in overpayments and an additional \$4,924 in underpayments.

If not mitigated, these control deficiencies leave CSUS at risk of making additional improper settlement payments.

Statistical sampling results

The identified improper payments represent a net total of \$117.

We used a statistical sampling method to select the settlement payments that we examined. We projected an additional \$6,978 in overpayments and \$4,924 in underpayments. The projected improper payments represent a net total of \$2,054.

The identified and projected improper payments totaled a net of approximately \$2,171, consisting of \$7,375 in overpayments and \$5,204 in underpayments.

The following table summarizes the results of our statistical sampling (amounts are rounded to the nearest dollar):

Identified improper payments, net	\$ 117
Divide by: Sample	282,557
Error rate for projection (differences due to rounding)	<u>0.04%</u>
 Population that was statistically sampled	 5,251,232
Multiply by: Error rate for projection	<u>0.04%</u>
Identified and projected improper payments, net (differences due to rounding)	2,171
Less: Identified improper payments, net	<u>117</u>
Projected improper payments, net	<u><u>\$ 2,054</u></u>

Criteria

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

Title 5, California Code of Regulations, section 42805 specifies the requirements for settlement pay.

Section F 011 (revised August 1993) of SCO's *Payroll Procedures Manual* states, in part:

Adjustment of annual wages is referred to as a "settlement." A settlement shall be certified for each academic year employee or ten-month academic employee whose pay has been adjusted during the period of employment due to a late start, dock, transfer between positions, or a separation. When settlements are submitted, adjustments will be made for work at two or more time bases or salary rates.

Section F 012 (revised January 2002) of SCO's *Payroll Procedures Manual* states, in part:

When separate settlement amounts are computed and an employee has been employed at two or more time bases or has had two or more salary rates in the academic year, semester, quarter, or summer quarter, separate salary settlements shall also be computed for completed semesters and academic quarters prior to the semester or academic quarter in which separation occurs. The separate settlement calculations shall then be added together to determine the total settlement amount due the employee for all time bases and rates combined.

Recommendation

We recommend that CSUS:

- Establish adequate controls to ensure that settlement payments are accurate and in compliance with state regulations and policy; and
- Recover overpayments made to employees through an agreed-upon collection method in accordance with Chapter 28, "Accounts Receivable," of the *CSU Legal Manual*; and
- Properly compensate those employees who were underpaid.

FINDING 5— Failure to collect outstanding salary advances

CSUS lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls over salary advances to ensure that advances were collected in a timely manner in accordance with state laws and policies. Seven salary advances, totaling \$5,413, remained outstanding for more than 200 days as of February 29, 2020.

At February 29, 2020, CSUS's accounting records showed eight outstanding salary advances, totaling \$5,838. One balance was written off as a result of an agreement between the employee and CSUS. We further examined the remaining seven balances, totaling \$5,413, which had been outstanding for an average of 874 days. We noted that the oldest unrecovered salary advance was outstanding for over five years, and that CSUS had not initiated timely collection efforts for the seven advances. For example, CSUS issued a salary advance to an employee in May 2014; however, CSUS did not issue any collection notices during the audit period. Salary advances are more difficult to collect after an employee leaves state service, and they might become uncollectable if not collected within three years.

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

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

Recommendation

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

Appendix— Audit Sampling Methodology

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

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

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

We conducted compliance testing on samples chosen by computer-generated simple random selection. For populations of 250 items or more, we determined the sample size using a calculator with a binomial distribution. As stated in *Technical Notes on the AICPA Audit Guide: Audit Sampling* (March 1, 2012), page 5, although the hypergeometric distribution is the correct distribution to use for attributes sample sizes, the distribution becomes unwieldy for large populations unless suitable software is available. Therefore, more convenient approximations are frequently used instead.

The confidence level was 90.00%; the tolerable error rate was 5.00%; and the expected error rates were 1.00 (1.25%) for regular pay, and 2.00 (1.75%) for the other audit areas. Pursuant to the AICPA's *Audit Guide: Audit Sampling* (December 1, 2019 edition), pages 131–132, the *expected error rate* is the expected number of errors planned for in the sample. It is derived by multiplying the expected error rate by the sample size. The expected number of errors in the sampling tables on pages 135–136 was rounded upward, e.g., 0.2 errors become 1.0 error. Results were projected to the intended (total) population.

Audit Area	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Size	Finding Number
Regular pay	170,979	\$ 592,894,238	Transaction	77	
Separation lump-sum pay	720	3,956,915	Employee	105	2
Overtime pay	4,187	2,574,106	Transaction	105	3
Settlement pay	1,601	5,251,232	Transaction	105	4
Emergency pay	7,674	29,108,967	Transaction	105	

**Attachment—
California State University, Sacramento's Response to Draft
Audit Report**



California State University, Sacramento
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September 30, 2024

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

Sent via Email [REDACTED]

SUBJECT: Response to California State University, Sacramento Payroll Audit Report

Dear Roochel Espilla:

This letter is in response to the draft report issued by the State Controller's Office (SCO) on September 10, 2024, regarding the payroll process and transactions of California State University, Sacramento (Sacramento State), for the period of March 1, 2017, through February 29, 2020.

Sacramento State welcomes the insights provided by the auditors and thanks the SCO for its work on the audit. The following is in response to each of the findings and recommendations contained in the report.

Finding 1

Inadequate segregation of duties and a lack of compensating controls over payroll transactions.

SCO Recommendation 1

- Separate conflicting payroll function duties to the greatest extent possible. Adequate segregation of duties will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another. If it is not possible to segregate payroll functions fully and appropriately, CSUS should implement compensating controls. For example, if the payroll transactions unit staff member responsible for recordkeeping also performs a reconciliation process, then the supervisor should perform and document a detailed review of the reconciliation to provide additional control over the assignment of conflicting functions. Compensating controls may also include dual authorization requirements and documented reviews of payroll system input and output; and
- Develop formal procedures for performing and documenting compensating controls.

Sacramento State Response:

We concur. Sacramento State has taken the necessary steps to separate conflicting payroll functions. For example, a separate work unit from Payroll Services is now responsible for personnel hires, terminations, and employment status changes in our Human Resources Information System (HRIS). A designated Payroll Services staff member runs job data change reports from the HRIS. This information is used as the source for required data entries into PIMS. Additionally, formal procedures for performing and documenting compensating controls have been developed and are included as part of training for Payroll Services employees.

Finding 2

Improper and late separation lump-sum payments.

SCO Recommendation 2

- Establish adequate controls to ensure that separation lump-sum payments are calculated accurately and made in a timely manner;
- Conduct a review of separation lump-sum payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law;
- Recover any overpayments made to separated employees through an agreed-upon collection method in accordance with Chapter 28, "Accounts Receivable," of the California State University (CSU) Legal Manual; and
- Properly compensate those employees who were underpaid.

Sacramento State Response:

We concur. Sacramento State has developed processes to further review and confirm lump-sum payment calculations prior to generating separation pay. This includes instituting a secondary level of review of lump sum payments by an authorized Payroll Services representative, before final pay is issued. Sacramento State agrees to conduct an internal review, facilitated through our in-house Auditing and Consulting Services, on separation lump-sum payments. As applicable, Payroll Services notifies employees who were overpaid in accordance with Chapter 28, "Accounts Receivable," of the California State University (CSU) Legal Manual, and properly compensate employees who have been determined to be underpaid.

Finding 3

Improper payments and missing timesheets for overtime pay.

SCO Recommendation 3

- Conduct a review of overtime payments made during the past three years to ensure that the payments complied with collective bargaining agreements and state law;
- Recover any overpayments made to employees through an agreed-upon collection method in accordance with Chapter 28, "Accounts Receivable," of the CSU Legal Manual; and
- Properly compensate those employees who were underpaid.
- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state law;

- Provide adequate oversight to ensure that payroll transactions unit staff members process only valid and authorized payments that comply with collective bargaining agreements and state law; and
- Maintain supporting documentation for payments, pursuant to its retention policies.

Sacramento State Response:

We concur. Sacramento State has developed processes to ensure that overtime payments are accurate and comply with collective bargaining agreements and state laws and policies. This includes a secondary review of overtime payments by an authorized Payroll Services representative. Sacramento State implemented an online time reporting module that requires both the employee and authorized manager to approve all hours worked prior to payroll processing. Standard operating procedures, which include record retention policies, are followed. Additionally, Sacramento State agrees to conduct an internal review, facilitated through our in-house Auditing and Consulting Services, regarding overtime payments. As applicable, Payroll Services notifies employees who were overpaid in accordance with Chapter 28, "Accounts Receivable," of the CSU Legal Manual, and properly compensate employees who were underpaid.

Finding 4

Improper settlement payments.

SCO Recommendation 4

- Establish adequate controls to ensure that settlement payments are accurate and in compliance with state regulations and policy;
- Recover overpayments made to employees through an agreed-upon collection method in accordance with Chapter 28, "Accounts Receivable," of the CSU Legal Manual; and
- Properly compensate those employees who were underpaid.

Sacramento State Response:

We concur. Sacramento State has developed processes to confirm whether settlement payments are accurate and in compliance with collective bargaining agreements and state policy. This includes instituting a secondary level of review of settlement payments by an authorized Payroll Services representative prior to final pay being issued. As applicable, Payroll Services notifies employees who were overpaid in accordance with Chapter 28, "Accounts Receivable," of the CSU Legal Manual, and properly compensate employees who were underpaid.

Finding 5

Failure to collect outstanding salary advances.

SCO Recommendation 5

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

Sacramento State Response:

We concur. Sacramento State implemented a workflow improvement to track the issuance of salary advances and repayment progress.

State Controller's Office
September 30, 2024
Page 4 of 3

Thank you for the opportunity to respond to the draft audit report. Sacramento State appreciates the guidance provided by the SCO and we are committed to maintaining implemented corrective actions. If you have any questions, please contact Mashariki Lawson-Cook, Audit Manager, at [REDACTED] or by email by [REDACTED]

Sincerely,



Machelle Martin
Senior Associate Vice President for Human Resources
Vice President and Chief Financial Officer (Interim)
Sacramento State

c: Luke Wood, President
Margaret Lee, Director for Payroll Services, Human Resources
Margaret Hwang, Chief of Operations, Administration and Business Affairs
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