CALIFORNIA PUBLIC UTILITIES COMMISSION

Audit Report

PAYROLL AUDIT

July 1, 2018, through June 30, 2021

MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

December 2024

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 4, 2024

Ms. Rachel Peterson, Executive Director
California Public Utilities Commission
505 Van Ness Avenue, Room 3008
San Francisco, CA 94102

Dear Ms. Peterson:

This is the final report on our audit of the California Public Utilities Commission's payroll process and transactions for the period of July 1, 2018, through June 30, 2021. The audit was conducted pursuant to Government Code sections 12476 and 12410.

California Public Utilities Commission 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

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Public Utilities Commission's (CPUC) payroll process and transactions for the period of July 1, 2018, through June 30, 2021.

CPUC 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 the CPUC did not:

- Maintain adequate and effective internal controls over certain aspects of its payroll process, as described in Findings 1 though 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 3 and 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

Our audit objectives were to determine whether the CPUC:

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

The audit covered the period from July 1, 2018, through June 30, 2021. The audit population consisted of payroll transactions totaling $375,136,558, as quantified in the Schedule.

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

- We reviewed state and CPUC policies and procedures related to the payroll process to understand the CPUC's methodology for processing various payroll and payroll-related transactions.
- We interviewed the CPUC's payroll personnel to understand the CPUC'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 the CPUC administered and recorded them in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- We assessed the reliability of computer-processed data for payroll and payroll-related transactions by interviewing CPUC 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 the CPUC did not maintain adequate and effective internal controls over its payroll process;[1] did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; 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:

- The CPUC had inadequate segregation of duties and a lack of compensating controls over payroll transactions (see Finding 1).
- Fourteen of 39 (36%) employees whose records we examined during our audit had inappropriate access to the State's payroll system (see Finding 2).
- The CPUC did not reduce employees' balances in the State's leave accounting system after separation lump-sum payments were made to 83 of 105 (79%) employees whose records we examined. We identified unreduced leave credits with a value of $1,448,921 and projected additional unreduced leave credits with a value of $2,024,318. The CPUC also overpaid 30 of the 105 (29%) employees—including 27 whose leave balances were not reduced after the employees were paid leave credits—by approximately $110,242 and underpaid eight of the 105 (8%) employees—including five whose leave balances were not reduced after the employees were paid leave credits—by approximately $25,311. We projected the additional overpayments to be $154,021 and underpayments to be

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

$35,361. Furthermore, the CPUC did not make separation lump-sum payments to 42 of the 105 (40%) employees in a timely manner (see Finding 3).

- The CPUC had inadequate controls to ensure that it adhered to requirements limiting the accumulation of vacation and annual leave credits. As of October 1, 2020, the CPUC's leave accounting records show 158 employees whose balances exceed the limits set by collective bargaining agreements and state regulations. The value of the CPUC's excess leave balances was at least $1,669,332 as of October 1, 2020. Based on our audit testing, we determined that for about 54% of the employees whose records we examined, the CPUC had failed to implement controls to ensure that it adhered to the requirements. We identified excess vacation and annual leave credits with a value of $280,684 and we projected additional leave credits with a value of $436,072 (see Finding 4).
- The CPUC had inadequate controls to ensure that salary advances were administered in accordance with requirements and collected in a timely manner. Forty-eight salary advances, totaling $54,516, remained outstanding for over 90 days as of June 30, 2021 (see Finding 5).

Follow-up on Prior Audit Findings

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

Views of Responsible Officials

We issued a draft audit report on September 12, 2024. The CPUC's representative responded by letter dated September 23, 2024, agreeing with the audit results. This final audit report includes the CPUC's response as an attachment.

Restricted Use

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

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

December 4, 2024

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

Audit Area Tested	Method of Selection	Number of Units of Population	Dollar Amount of Population	Number of Selections Examined	Dollar Amount of Selections Examined	Net Total Dollar Amount of Identified Improper Costs	Net Total Dollar Amount of Projected Improper Costs and Identified and Projected Unsupported Costs	Finding Number
Segregation of duties	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
System access	Targeted	39	N/A	39 Employees	N/A		N/A	2
Regular pay	Statistical	45,401	$ 364,937,234	105 Transactions	$ 848,314	$ -	$ -	
Separation lump-sum pay	Statistical	255	4,480,066	105 Employees	1,868,936	1,533,852	2,142,978	3
Leave buy-back	Statistical	551	2,613,745	105 Employees	477,045	-	-	
Excess vacation and annual leave	Statistical	158	1,669,332	74 Employees	653,716	280,684	436,072	4
Overtime pay	Statistical	863	904,623	105 Transactions	110,562	-	-	
Salary advance	Targeted	50	59,201	48 Transactions	54,516	54,516	-	5
Holiday pay	Targeted	1278	472,357	3 Transactions	788		-	
			$ 375,136,558		$ 4,013,877	$ 1,869,052	$ 2,579,050	

Findings and Recommendations

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

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

Our audit found that the CPUC payroll transactions unit staff performed conflicting duties. Staff members performed multiple steps in processing payroll transactions, including entering data into the State's payroll system; auditing employee timesheets; reconciling payroll, including reconciling system output to source documentation; reporting payroll exceptions; and processing adjustments. For example, staff members keyed in regular and overtime pay, and reconciled the master payroll, overtime, and other supplemental warrants. The CPUC failed to demonstrate that it 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 CPUC 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 the CPUC:

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

- Develop formal procedures for performing and documenting compensating controls.

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

The CPUC lacked adequate controls to ensure that only appropriate staff members had keying access to the State's payroll system. The CPUC inappropriately allowed 14 employees keying access to the State's payroll system because the CPUC did not immediately remove or modify keying access for the employees after their separation from state service, transfer to another agency, or change in classification.

The SCO maintains the State's payroll system. The system is decentralized, thereby allowing employees of state agencies to access it. All state agencies are required to comply with PPSD's *Decentralized Security Program Manual* (DSP Manual) in order to access the payroll system. The DSP Manual describes how state agencies can secure and protect the confidentiality and integrity of payroll data against misuse, abuse, and unauthorized use.

We examined the records of 39 CPUC employees who had keying access to the State's payroll system at various times between July 2018 and June 2021. Of the 39 employees, 14 had inappropriate keying access to the State's payroll system. Specifically, the CPUC did not immediately remove or modify keying access for the employees after the employees' separation from state service, transfer to another agency, or change in classification. For example, an Associate Program Analyst left the CPUC on March 1, 2019, but the CPUC did not request to remove the employee's access until February 13, 2020—349 days later. The CPUC lacked periodic review of keying access granted to employees to ensure compliance with the DSP Manual.

If not mitigated, this control deficiency leaves payroll data at risk of misuse, abuse, and unauthorized use.

The December 2015 DSP Manual ("Access Requirements," page 13) states, in part:

> The [State's payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their duties. . . .
>
> If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately by a request submitted by the department/campus.

The June 2020 DSP Manual ("Access Requirements," page 6) states, in part:

> The [State's payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their regular daily duties. . . .
>
> If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately via a request submitted by the department/campus.

The October 2020 DSP Manual ("Access Requirements," page 5) states, in part:

> The [State's payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their regular daily duties. . . .
>
> If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately via a request submitted by the department/campus Security Monitor/Assistant Security Monitor. . . .

The December 2015 DSP Manual ("Revocation and Deletion of User IDs," page 17) states, in part:

> To prevent unauthorized use by a transferred, terminated or resigned employee's user ID, the Security Monitor must IMMEDIATELY submit all pages of the PSD125A [Security Authorization form] to delete the user's system access. Using an old user ID increases the chances of a security breach, which is a serious security violation. Sharing a user ID is strictly prohibited and a serious violation. . . .

The June 2020 DSP Manual ("Revocation and Deletion of User IDs," page 10) states, in part:

> To prevent unauthorized use by a transferred, terminated or resigned employee's User ID, the Security Monitor must IMMEDIATELY submit all pages of the PSD125A signed by both Security Monitor and Authorizing Manager to delete the user's system access. Using an old User ID increases the risk of a security breach, which is a serious security violation. Sharing a User ID is strictly prohibited. . . .

The October 2020 DSP Manual ("Revocation and Deletion of User IDs," page 7) states, in part:

> To prevent unauthorized use by a transferred, terminated or resigned employee's User ID, the Security Monitor must IMMEDIATELY contact DSA by email. The Security Monitor/Assistant Security Monitor

> must submit all pages of the PSD125A signed by both Security Monitor Assistant Security Monitor and Authorizing Official/Assistant Authorizing Official to delete the user's system access. Using an old User ID increases the risk of a security breach, which is a serious security violation. Sharing a User ID is strictly prohibited. . . .

Recommendation

We recommend that the CPUC:

- Update keying access to the State's payroll system immediately after employees leave the CPUC, transfer to another unit, or change classifications; and
- Periodically review access to the system to verify that access complies with the DSP Manual.

FINDING 3—Inaccurate leave accounting; improper and late separation lump-sum payments

The CPUC lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls to ensure that paid leave credits were properly reduced in the State's leave accounting system; adequate controls over the processing of employee separation lump-sum pay; and adequate supervisory review to ensure accurate and timely processing of separation lump-sum pay.

Payroll records show that the CPUC processed separation lump-sum payments, totaling $4,480,066, for 255 employees between July 2018 and June 2021. Of those employees, we randomly selected a statistical sample (as described in the Appendix) of 105 employees who received separation lump-sum payments, totaling $1,868,936. Based on our examination of the employees' records, we found the following errors:

- The CPUC did not reduce employees' balances in the State's leave accounting system for 83 of 105 (79%) employees to reflect the number of leave credits—with a value of $1,448,921—that had been paid. Unreduced leave balances pose a risk to the State because they overstate the State's liabilities for leave balances and allow the possibility of improper and duplicative payments for leave credits. We projected the value of additional unreduced paid leave credits to be $2,024,318.
- The CPUC overpaid 30 of 105 (29%) employees—including 27 whose leave balances were not reduced after the employees were paid leave credits—by approximately $110,242 and underpaid eight of 105 (8%) employees—including five whose leave balances were not reduced after the employees were paid leave credits—by approximately $25,311 because payroll transactions unit staff members miscalculated the leave credits that had been paid. We projected the additional overpayments to be $154,021 and underpayments to be $35,361.
- The CPUC did not make separation lump-sum payments to 42 of 105 (40%) employees in a timely manner.

If not mitigated, these control deficiencies leave the CPUC 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 value of unreduced leave credits and improper payments has a net total of $1,533,852.

We used a statistical sampling method to select the employees whose separation lump-sum payments we examined. We projected an additional $2,024,318 in unreduced leave credits; $154,021 in overpayments; and $35,361 in underpayments. The projected improper costs have a net total of $2,142,978. Therefore, the identified and projected improper costs totaled a net of approximately $3,676,830, consisting of $3,473,239 in unreduced leave credits, $264,263 in overpayments, and $60,672 in underpayments.

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

Identified value of unreduced leave credits and improper payments, net	$ 1,533,852
Divide by: Sample	1,868,936
Error rate for projection (differences due to rounding)	82.07%
Population that was statistically sampled	4,480,066
Multiply by: Error rate for projection	82.07%
Identified and projected value of unreduced leave credits and improper payments, net (differences due to rounding)	3,676,830
Less: Identified value of unreduced leave credits and improper payments, net	1,533,852
Projected value of unreduced leave credits and improper payments, net	$ 2,142,978

Criteria

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

GC section 19839 allows lump-sum payment for accrued eligible leave credits when an employee separates from state employment. Collective bargaining agreements include similar provisions regarding separation lump-sum pay.

Collective bargaining agreements and state laws, as summarized in section 1703 of the California Department of Human Resources' Human Resources Manual, establish the requirements for separation lump-sum pay.

Recommendation

We recommend that the CPUC:

- 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 in accordance with GC section 19838 and State Administrative Manual (SAM) sections 8291, 8291.1, and 8293; and
- Properly compensate those employees who were underpaid.

We further recommend that, to prevent inaccurate and untimely processing of separation lump-sum pay from recurring, CPUC establish adequate controls to ensure that:

- Employee leave balances are reduced in a timely manner after the separation lump-sum payment is made;
- Separation lump-sum payments are calculated accurately; and
- Separation lump-sum payments are made in a timely manner.

FINDING 4—Excessive vacation and annual leave balances

The CPUC's leave accounting records show 1,266 employees with unused vacation or annual leave credits at October 1, 2020. Of those employees, 158 exceeded the limits set by collective bargaining agreements and state regulations. The employees accumulated 29,105 hours of excess vacation and annual leave, with a value of at least $1,669,332 as of October 1, 2020. Our audit determined that for about 54% of the employees whose records we examined, the CPUC had failed to implement controls to ensure that it adhered to the requirements. This estimated liability does not adjust for salary rate increases and additional leave credits.[2] Accordingly, we expect that the amount needed to pay for this liability will be higher.

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate. The limit on leave balances helps state agencies to manage leave balances and control the State's liability for accrued leave credits. State agencies may allow employees to carry a higher leave balance only under limited circumstances. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit due to business needs. When an employee's leave accumulation exceeds or is projected to exceed the limit, state agencies should work with the employee to develop a written plan to reduce leave balances below the applicable limit.

On October 20, 2020, the California Department of Human Resources directed departments to immediately suspend policies that require leave balances to be reduced below the limit, and that require employees to

[2] Most state employees receive pay rate increases every year pursuant to state laws and/or collective bargaining agreements until they reach the top of their pay scale, or promote into a higher-paying position. In addition, when an employee's accumulated leave balances upon separation are calculated for lump-sum pay, the employee is credited with additional leave credits equal to the amount that the employee would have earned had the employee taken time off and not separated from state service.

implement leave-reduction plans. This suspension was in effect until the 2020 Personal Leave Program ended on June 30, 2021. Therefore, we examined employees' vacation and annual leave balances as of October 1, 2020.

Of the 158 employees with excess vacation and annual leave, we randomly selected a statistical sample (as described in the Appendix) of 74 employees who accumulated 12,185 hours of excess vacation and annual leave balances, with a value of at least $653,716. We examined these employees' records to determine whether the CPUC had complied with collective bargaining agreements and state regulations.

Of the 74 employees whose records we examined, 40 did not comply with collective bargaining agreements and state regulations for the following reasons:

- The CPUC could not demonstrate that, if the employees were unable to reduce their vacation and annual leave balances, it had allowed the employees to maintain excess balances because of the extenuating circumstances specified in the agreements and regulations.
- The CPUC had no plans in place during the audit period for the employees to reduce leave balances below the limit.

The 40 employees accumulated 4,723 hours of excess vacation and annual leave balances, with a value of at least $280,684.

If the CPUC does not take action to reduce the excessive leave balances, the liability for accrued vacation and annual leave will likely increase because most employees will receive salary increases or use other non-compensable leave credits instead of vacation or annual leave, thus increasing their vacation or annual leave balances.

The state agency responsible for paying these leave balances may face a cash flow problem if a significant number of employees with excessive vacation or annual leave balances separate from state service. Normally, state agencies are not budgeted to make these separation lump-sum payments. However, the State's current practice dictates that the state agency that last employed an employee pays for that employee's separation lump-sum payment, regardless of where the employee accrued the leave balance.

Statistical sampling results

The identified value of excess vacation and annual leave balances that did not comply with collective bargaining agreements and state regulations totaled at least $280,684.

We used a statistical sampling method to select the employees whose records we examined. We projected additional excess vacation and annual leave balances with a value of at least $436,072. Therefore, the value of identified and projected excess vacation and annual leave balances totaled $716,756.

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

Identified excess vacation and annual leave balances	$ 280,684
Divide by: Sample	653,716
Error rate for projection (differences due to rounding)	42.94%
Population that was statistically sampled	1,669,332
Multiply by: Error rate for projection	42.94%
Identified and projected excess vacation and annual leave balances (differences due to rounding)	716,756
Less: Identified excess vacation and annual leave balances	280,684
Projected excess vacation and annual leave balances	$ 436,072

Criteria

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that state employees may accumulate to no more than 80 days (640 hours).

Recommendation

We recommend that the CPUC:

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

FINDING 5— Failure to collect outstanding salary advances

The CPUC lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over salary advances to ensure that they were collected in a timely manner in accordance with state law and policies. Forty-eight salary advances, totaling $54,516, remained outstanding for more than 90 days as of June 30, 2021.

At June 30, 2021, the CPUC's accounting records show 50 outstanding salary advances, totaling $59,201. We judgmentally selected and examined the 48 salary advances, with a value of $54,516, that had been outstanding for more than 90 days. The salary advances had been outstanding for an average of 4,614 days. We noted that the CPUC had not initiated timely collection efforts for any of the salary advances that we sampled. For example, CPUC issued a $600 salary advance to an employee in August 2018, and had not sent a collection letter by the time of our fieldwork. Salary advances are more difficult to collect after an employee leaves state service, and they may become uncollectable if not collected within three years.

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

GC section 19838 and SAM sections 8291, 8291.1, 8293, and 8293.2 describe the State's collection policies and procedures, which require the collection of salary advances in a timely manner and maintenance of proper records of collection efforts. Specifically, GC section 19838(d) and SAM section 8293.2 require that actions to recover overpayments begin within three years of the date of overpayment.

Recommendation

We recommend that the CPUC ensure that it collects salary advances in a timely manner, pursuant to GC section 19838 and SAM sections 8291, 8291.1, 8293, and 8293.2.

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 and low 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 fewer than 250 items, we determined the sample size using a calculator with a hypergeometric distribution. 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 levels were 95.00% for excess vacation and annual leave and 90.00% for regular pay, separation lump-sum pay, and overtime pay; the tolerable error rate was 5.00%; and the expected error rates were 2.00 (1.25%) for excess vacation and annual leave and 2.00 (1.75%) for regular pay, separation lump-sum pay, and overtime pay. 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	45,401	$364,937,234	Transaction	105	
Separation lump-sum pay	255	4,480,066	Employee	105	3
Leave buy-back	551	2,613,745	Employee	105	
Excess vacation and annual leave	158	1,669,332	Employee	74	4
Overtime pay	863	904,623	Transaction	105	

Attachment—
California Public Utilities Commission's Response to Draft Audit Report

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
505 VAN NESS AVENUE | SAN FRANCISCO, CALIFORNIA 94102

September 23, 2024

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

Dear Roochel Espilla:

The California Public Utilities Commission (CPUC) hereby provides its response to the draft report findings and recommendations of the State Controller's Office's draft audit report entitled, *Payroll Audit Report (July 1, 2018, through June 30, 2021)* issued on September 12, 2024.

The CPUC agrees with the findings and is committed to continuous improvement of its operations. Therefore, the CPUC will provide a 90-Day corrective action plan that establishes and outlines the timelines towards implementing these recommendations.

The CPUC appreciates the work performed by the State Controller's Office and the opportunity to provide this Initial Response to the Draft Report. If you have further questions, please contact me at 415-757-7844.

Sincerely,

Rachel Peterson

Rachel Peterson
Executive Director

cc: Kimberly A. Tarvin, Chief, CPA
Division of Audits
State Controller's Office

Alice Busching Reynolds, President
California Public Utilities Commission

Ryan Dulin, Deputy Executive Director, Internal Operations
Executive Division

Liza Dougherty, Director
Human Resources Division

Jacqueline Lau, Staff Services Manager III, Personnel Officer
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S22-PAR-0003