



High Risk Update

State Agencies Credited Their Employees With Millions of Dollars Worth of Unearned Leave

Report 2012-603

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August 26, 2014

2012-603

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The California State Auditor (state auditor) presents this report concerning the State's accounting of employee leave records. This report concludes that state agencies have credited their employees with millions of dollars worth of unearned leave because the State has weak controls over its accounting of employees' leave records. Specifically, when we performed a statewide electronic analysis of the California State Controller's Office's (state controller) California Leave Accounting System (leave accounting system), we found that state agencies credited employees with nearly 197,000 hours of unearned leave between January 2008 and December 2012. As of December 2013 the value of these erroneous leave hours was nearly \$6.4 million, an amount that will likely increase over time as employees receive raises or promotions. These errors also include nearly 16,000 hours of sick leave, which state employees can convert to state service credit when they retire, ultimately increasing the State's pension payments.

The large number of errors has occurred in part because the leave accounting system lacks sufficient controls to assist state agencies in ensuring that their leave transactions are complete, accurate, and valid. To improve the accuracy of the leave accounting system, the state controller should implement cost-effective controls to prevent the system from processing the types of inappropriate transactions we identified in our analysis. Additionally, it should work with the California Department of Human Resources to establish criteria that the state controller can use to develop monthly exception reports, which identify unexpected or atypical leave transactions to aid state agencies in detecting erroneous transactions.

Finally, unclear guidance in state law puts the State at risk of incurring additional costs. Although state law requires agencies to initiate collection efforts within three years from the date of the overpayment, it does not define when an overpayment occurs. Thus, the Legislature should amend state law to clarify the statute of limitation for recovering overpayment of leave credits.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

State agencies have credited their employees with millions of dollars worth of unearned leave because the State has weak controls over its accounting of employees' leave records. The California State Controller's Office (state controller) maintains the California Leave Accounting System (leave accounting system) to track leave activity for employees at participating departments, agencies, California State University (CSU) campuses, and other entities (state agencies). While the state controller is responsible for maintaining and supporting the leave accounting system, each participating state agency retains ownership of its data stored within the system and is responsible for the data's accuracy and completeness. When we performed a statewide electronic analysis of the leave accounting system, we found that state agencies credited employees with roughly 197,000 hours of unearned leave between January 2008 and December 2012.¹ As of December 2013 the value of these erroneous leave hours was nearly \$6.4 million, an amount that will likely increase over time as employees receive raises or promotions. These errors also include nearly 16,000 hours of sick leave, which state employees can convert to state service credit when they retire, ultimately increasing the State's pension payments.

Additionally, unclear guidance in state law puts the State at risk of additional costs. Specifically, state agencies must initiate collection efforts on overpayments within three years from the date of overpayment. However, state law does not explicitly define when an overpayment occurs. Both the California Department of Human Resources (CalHR) and CSU consider overpayments of leave to occur when employees use the erroneous leave to cover absences from work or cash out unearned leave hours. Because of the absence of clear statutory language, in the event of litigation the State is at risk of not recovering the funds that represent inappropriately credited leave hours.

The large number of errors occurred in part because the leave accounting system lacks sufficient automated controls to prevent state agencies from processing erroneous transactions. According to the state controller, the leave accounting system has automated controls to ensure the accuracy of certain types of monthly accruals, such as sick leave and vacation leave. However, these automated controls do not always prevent state agencies from crediting

Report Highlights . . .

Our review of the California Leave Accounting System (leave accounting system) highlighted the following:

- » *State agencies credited employees with roughly 197,000 hours—valued at nearly \$6.4 million as of December 2013—of unearned leave between January 2008 and December 2012.*
- » *Because of the absence of clear statutory language, in the event of litigation the State is at risk of not recovering the funds that represent inappropriately credited leave hours.*
- » *The leave accounting system lacks sufficient automated controls to prevent state agencies from processing erroneous transactions.*
 - *One state agency inappropriately credited an employee with eight hours of sick leave each month for 10 years in addition to her monthly accrual of annual leave.*
 - *One state agency erroneously gave an employee 1,212 hours of holiday credit in December 2012, worth more than \$33,000, instead of the eight hours to which she was entitled.*
- » *Some state agencies misinterpreted collective bargaining agreements related to the number of leave hours their employees should earn.*
- » *Of the 14 locations we visited, only two performed procedures to ensure that their staff properly entered information from time sheets into the leave accounting system.*

¹ There may be circumstances relating to specific transactions that result in those transactions being appropriate or there may be additional errors that we did not identify. However, to account for all errors would have required a manual review of all state employees' time sheets.

state employees with unearned leave. For example, for more than 10 years the California Department of Education (Education) inappropriately credited one employee with eight hours of sick leave each month in addition to her monthly accrual of annual leave. An employee can elect to receive vacation and sick leave benefits or the annual leave benefit, but an employee cannot receive both benefits. Thus, Education gave this employee 968 leave hours to which she was not entitled.

To improve the controls over the leave accounting system, the state controller could aid state agencies in detecting erroneous transactions by generating additional exception reports that identify unexpected or atypical leave transactions. For example, when we prepared an exception report, we identified one instance in which Coalinga State Hospital erroneously gave an employee 1,212 hours of holiday credit, worth more than \$33,000, instead of the eight hours to which she was entitled. Without exception reports, state agencies may not detect overpayments of this nature.

Further, we identified two state agencies that misinterpreted collective bargaining agreements related to the number of leave hours employees should earn. State law and collective bargaining agreements establish state employees' leave benefits. For example, collective bargaining agreements establish the total compensation in pay and leave credits that employees should receive for working on holidays. However, the California Science Center (Science Center) misinterpreted the language in these agreements. As a result, between January 2008 and December 2012, it erroneously gave its employees more than 4,500 hours of holiday credit to which they were not entitled. In another instance, Chula Vista Veterans Home misinterpreted collective bargaining agreements and consequently gave its employees twice the number of holiday credits that they were entitled to for a holiday in March 2012. We believe that CalHR should provide additional guidance to state agencies to avoid these types of misinterpretations.

Although the state controller maintains data in its leave accounting system, individual state agencies are responsible for ensuring the accuracy of these data. To determine the procedures state agencies follow for ensuring that accuracy, we visited 14 locations administered by the California Department of State Hospitals, the California Department of Veterans Affairs (Veterans Affairs), and the Science Center. Although each of the locations verified the accuracy of the information their employees recorded on their time sheets, only two locations performed procedures to ensure that their staff properly entered the information from the time sheets into the leave accounting system and even those

procedures were limited. Without sufficient processes to verify the accuracy of the data they enter, state agencies may make erroneous leave accounting transactions that remain undetected or are never identified.

Recommendations

The Legislature should amend state law to clarify the statute of limitations for recovering the overpayment of leave credits.

To correct the erroneous leave hours we identified in our analysis of the leave accounting system, CalHR should work with the state controller and all state agencies under its authority to review and take the appropriate action to correct the errors by January 2015.

To correct the erroneous leave hours we identified in our analysis of the leave accounting system related to the CSU, CSU's Office of the Chancellor should work with the CSU campuses to review and take the appropriate action to correct the errors by January 2015.

To improve the accuracy of information in the leave accounting system and to ensure that state agencies do not improperly credit employees with leave in the future, the state controller should do the following:

- Implement additional controls by June 2015 to prevent the leave accounting system from processing the types of inappropriate transactions we identified in our statewide electronic analysis. For example, it could develop cost-effective controls in the leave accounting system that would prevent employees from receiving annual leave and sick leave during the same pay period.
- Work with CalHR to establish procedures by January 2015 for updating the criteria it uses to produce the monthly exception reports to ensure that the criteria reflect changes in state law and collective bargaining agreements.
- Using criteria provided by CalHR, develop monthly exception reports that identify transactions in the leave accounting system that are inconsistent with the guidelines established in state law and collective bargaining agreements, such as instances in which state employees receive too many personal holidays or too much holiday credit. By June 2015 begin providing each state agency's human resources management with the transactions identified in the exception reports for review and correction as necessary.

To ensure that state agencies accurately account for their employees' leave benefits, CalHR should do the following:

- Consolidate guidance by January 2015 regarding the appropriate amount of leave that employees should earn each month and provide these criteria to the state controller to use when developing the leave accounting system's monthly exception reports. For example, CalHR should identify the number of holiday credit hours that employees covered by each collective bargaining agreement should receive for working on a holiday.
- Work with the state controller to establish procedures by January 2015 for updating these criteria to ensure that they reflect any changes to state law and collective bargaining agreements.
- Provide additional guidance to state agencies by January 2015 on interpreting the provisions of the collective bargaining agreements related to the amount of leave employees earn. For example, CalHR could provide scenarios to illustrate the number of hours employees should earn under common circumstances.
- Develop guidelines and procedures by January 2015 requiring all state agencies to verify information their personnel specialists enter into any system they use to track state employees' leave transactions.

Agency Comments

In its response to this review, CalHR, CSU's Office of the Chancellor, Veterans Affairs, and the Science Center responded to the review indicating they agreed with the recommendations directed to each of them. Although the state controller indicated that it embraced many of the recommendations, it did not agree with the findings or the depth and completeness of our audit methodology.

Introduction

Background

Legislation that became effective in January 2005 authorizes the California State Auditor (state auditor) to develop a risk assessment process for the State and to issue reports focused on high-risk areas. In February 2009 the state auditor published a report titled *High Risk: The California State Auditor Has Designated the State Budget as a High-Risk Area*, Report 2008-603, which added the State's budget condition to the state auditor's list of high-risk issues because of the State's fiscal crisis and history of ongoing deficits. It also indicated that the state auditor would explore certain budget issues in more detail in the future to help decision makers find areas where the State might reduce expenses or improve operational efficiencies.

One of the budget issues we identified for further detailed review was the State's liability associated with leave benefits. According to the Legislative Analyst's Office (LAO), the State's liability to pay employee leave balances totaled \$3.9 billion as of June 2012,² or the equivalent of approximately 27 percent of the State's annual salary costs—higher than most other public and private employers. However, the actual leave benefit liability for the State is likely higher than reported because the LAO did not include the employees of the State's public universities in its report. For example, in the fall of 2012 the California State University (CSU) reported that it employed over 44,000 faculty and staff statewide. The leave benefit liability associated with these employees was not included in the LAO's total liability amount reported for the State's accumulated leave balance.

The State tracks its employees' leave benefits through a variety of electronic data systems. This report focuses on the accuracy of the State's accounting of leave benefits through the California State Controller's Office's (state controller) California Leave Accounting System (leave accounting system). Any individual whose leave is tracked by the leave accounting system (state employee) for the period January 2008 through December 2012 is included in our review.

² About 215,000 executive branch employees were included in the LAO report.

State Employees' Leave Benefits

State law and collective bargaining agreements establish state employees' leave benefits.³ Specifically, state law permits most state employees to join collective employee organizations. These employee organizations either negotiate with the California Department of Human Resources (CalHR) or the Board of Trustees of the CSU to determine state employees' wages, hours, leave benefits, and other terms and conditions of employment (employee benefits). Twenty-one collective bargaining agreements identify the outcomes of the negotiations with CalHR and 13 additional collective bargaining agreements describe CSU's employees' benefits. Further, state law excludes some state employees, such as managers or employees working for certain state agencies, from collective bargaining altogether; instead, state law alone defines the leave benefits for these employees.

In addition to its other duties, CalHR has responsibility for issues related to the majority of state employees' salaries and leave benefits. To assist state agencies in understanding leave benefit rules, CalHR provides consultation and hosts forums that provide training and guidance to state agencies' human resources professionals. It also distributes and publishes policy memos on its Web site that explain how the agencies should implement and interpret the provisions of each bargaining agreement.

The state controller tracks various types of employee leave benefits in its leave accounting system. In this review, we focused our statewide electronic analysis on eight of the nine leave benefits for which state employees earned the most leave between January 2008 and December 2012. Table 1 describes the leave benefits we reviewed. We did not review the remaining leave benefit—compensating time off—because the state controller's payroll and leave accounting systems do not contain sufficient detail to allow us to conduct statewide electronic analysis of this leave benefit.⁴

As shown in Table 1, state law entitles employees who separate from state service to receive a lump-sum payment for certain types of accumulated leave. Employees may elect to receive the lump-sum payment or they may contribute it into a personal retirement account, such as a 401(k) or 457 account. State law requires lump-sum payments to be calculated by projecting employees'

³ Certain state employees who work less than full time receive prorated benefits based on their time base.

⁴ Certain state employees may earn compensating time off in lieu of cash compensation based on the number of overtime hours they work during a week. However, because the state controller's systems do not contain the total number of hours employees work, without manually reviewing the employees' time sheets, we could not evaluate the appropriateness of the compensating time off that state agencies credited to employees.

accumulated leave on their work calendars until depleted as if they were still employed, potentially resulting in employees earning additional leave based on their accumulated leave balance. For example, if an employee who regularly earned 14 hours of annual leave each month took off the entire month of August 2013, thereby using 176 hours of his or her accumulated leave, that employee would still earn an annual leave credit of 14 hours for that month. Therefore, had this employee retired on July 31, 2013, with a total of 176 hours of accumulated annual leave credit, the State would have compensated him or her for the original 176 hours of accumulated leave, plus the 14 additional hours this employee would have earned had he or she used the leave. However, when the State terminates an employee for cause, he or she is not eligible to earn additional leave based on the accumulated leave balances and only receives payment for the accumulated leave balances as of the date he or she left state service.

Table 1
Types of Leave Benefits That We Evaluated

LEAVE BENEFIT	DESCRIPTION	SEPARATION FROM STATE SERVICE
Vacation*	State employees accrue vacation on a monthly basis. The amount of leave state employees earn is based on state law or their collective bargaining agreement and the length of time they have worked for the State.	State employees are entitled to a lump-sum payment for any unused vacation.
Sick Leave*	State employees accrue sick leave on a monthly basis. Sick leave is used to deal with a state employee's own or a family member's illness, injury, or medical-related issues.	The State converts unused sick leave to state service credit upon an employee's retirement, potentially resulting in the employee receiving increased monthly pension payments.
Annual Leave*	State employees accrue annual leave on a monthly basis in lieu of vacation and sick leave. The amount of annual leave state employees earn is based on state law or their collective bargaining agreement and the length of time they have worked for the State.	State employees are entitled to a lump-sum payment for any unused annual leave.
Holiday Credit	State employees earn leave when they work on holidays or when holidays fall on their regularly scheduled days off.	The State provides state employees with a lump-sum payment for any unused holiday credit.
Personal Holiday†	State employees earn one paid day off per year.	The State generally provides most state employees with a lump-sum payment for any unused personal holidays.
Furlough	The State implemented a program to reduce current spending by reducing its employee salaries in exchange for time off.	State employees must exhaust the leave prior to separating from state service.‡
Personal Leave Program for 2010		
Personal Leave Program for 2012		

Sources: California Government Code, California Department of Human Resources' policy memoranda, and executive orders.

* Employees can either elect to receive vacation and sick leave benefits or the annual leave benefit, but not both benefits.

† Some state employees have to complete six months of their initial probationary period in state service prior to receiving a personal holiday.

‡ On rare occasions, when an employee separates from state service and has accumulated Personal Leave Program 2010 or 2012 hours and/or furlough hours that cannot be used prior to separation, these unused hours must be paid at the time of the employee's separation.

Vacation, Sick, and Annual Leave

Most state employees are eligible to receive a combination of vacation and sick leave. Typically, state employees earn between seven and 16 hours of vacation per month based on state law or their collective bargaining agreement, and how long they have worked for the State. As shown in Table 1, state employees receive a lump-sum payment as compensation for their unused vacation leave when they separate from state service. In addition to vacation, state employees typically earn eight hours of sick leave per month. However, the State does not generally compensate employees with a lump-sum payment for sick leave when they separate from state service; instead, it converts the employees' unused sick leave to state service credit when they retire.⁵ Because the State uses state service credit in its calculation of pension payments, converting unused sick leave to state service credit can increase employees' monthly pension payments.

In lieu of vacation and sick leave, certain state employees are eligible to participate in the annual leave program. State employees opting to participate in an annual leave program typically earn between 11 and 20 hours of annual leave per month. Similar to vacation, employees receive a lump-sum payment as compensation for their unused annual leave when they separate from state service.

State and Personal Holidays

The State generally compensates its employees for state holidays with paid time off or holiday credits. State employees typically receive eight hours of holiday credit when a holiday falls on their regularly scheduled day off.⁶ However, the amount of compensation state employees earn for working on holidays varies. For example, if an employee represented by the Service Employees International Union, Local 1000, was regularly scheduled to work on Thanksgiving in 2012 and worked eight hours, he or she would receive eight hours of regular pay and an additional 12 hours of compensation in holiday credit, compensatory time off, or cash. However, if the same situation occurred for an employee represented by the California Correctional Peace Officers Association, he or she would have been eligible for only eight hours of regular pay and eight hours of holiday pay. Most state employees are also entitled to one personal holiday per year.⁷ State employees receive a lump-sum payment as compensation for their unused personal holidays and holiday credits when they separate from state service.⁸

⁵ The California Public Employees' Retirement System tracks state employees' service credits for the purpose of calculating their pension payments.

⁶ State holidays falling on a Sunday are generally observed the following Monday.

⁷ Some state employees have to complete six months of their initial probationary period in state service before receiving a personal holiday.

⁸ For certain CSU employees separating from state service, their unused personal holiday may not always be included in their final lump-sum payment.

Furlough and Personal Leave Programs

In February 2009 the State implemented a furlough program to reduce the State's spending by reducing employees' salaries in exchange for time off. As described in Appendix A beginning on page 35, state employees typically received between eight and 24 furlough hours each month in exchange for an equivalent reduction in their pay. The furlough program generally required employees to take time off every month. However, if the employees worked in locations such as hospitals or prisons where taking time off might jeopardize the public's health or safety and they were unable to take time off, the State credited them with furlough leave for use at a future date. The furlough program was in effect until June 2010, October 2010, or March 2011, depending on an employee's collective bargaining unit. The employees of two collective bargaining units participated in an additional furlough program during fiscal year 2012–13.

Similar to the furlough program, the State also instituted year-long personal leave programs in 2010 and 2012 to lower its salary expenses by reducing employees' pay and crediting them with personal leave. As shown in Appendix A, under these personal leave programs, employees received eight hours of personal leave each month. However, the State allowed certain employees to accumulate these hours for future use if it was not feasible for the employee to use them during the month in which they were earned.

Leave for Employees Working Alternate Work Week Schedules

The State allows some of its employees to work schedules that differ from the traditional schedule of five eight-hour days. For employees that follow an alternate work week schedule (alternate schedule), the total number of hours they work in a month may differ from the required number of work hours. Therefore, adhering to an alternate schedule may require some state employees to use their accrued leave to ensure that they fully account for the required number of work hours in the month as established in state law and regulation. For example, when these employees take time off, they must use leave hours to account for the total number of hours they were scheduled to work. Thus, if these employees normally work four 10-hour days per week and they do not work on a holiday that falls on one of their regularly scheduled work days, they must use two hours of leave to supplement the eight hours of holiday credit to which these employees are entitled. Further, if their alternate schedules result in them working more than the required number of hours in a particular month, the employees earn excess hours of leave credits. Conversely, if they work fewer than the required number of hours in a month, these employees must use their previously earned excess hours or other accumulated leave hours (excluding sick leave) to make up the difference.

CalHR has different policies for employees who are exempt from the Fair Labor Standards Act. Under CalHR polices, these employees are not required to supplement their total hours worked for the month with leave hours, nor are they eligible to earn additional leave credits for working excess hours.

Leave Accounting System

The state controller's leave accounting system allows participating state agencies to record and track state employees' leave accounting transactions. While the state controller is responsible for maintaining and supporting the leave accounting system, each participating state agency retains ownership of its data stored within the system and is responsible for the data's accuracy and completeness. The state controller also provides training and support services to agencies using the leave accounting system.

Although other systems exist for tracking leave, many state entities choose to track their employees' leave using the state controller's leave accounting system. As of December 2012, 142 state agencies, including six CSU campuses, participated in the leave accounting system. The remaining 17 CSU campuses tracked their leave using a separate system; CSU's Office of the Chancellor is in the process of moving all CSU campuses to this other system. Other state entities, such as the Franchise Tax Board, use alternative systems to track their employees' leave. Appendix B beginning on page 39 contains a listing of state agencies that used the state controller's leave accounting system between 2008 and 2012.

Processes for Recording State Employees' Time and Attendance

State law and policy require all state agencies to maintain complete records of their employees' attendance, absences, and use of leave. However, the State has not implemented standard statewide procedures for how state agencies should maintain these records. To gain an understanding of state agencies' timekeeping and leave accounting processes, we interviewed staff at the California Department of State Hospitals (State Hospitals), the California Department of Veterans Affairs, and the California Science Center. Figure 1 identifies the 14 locations of these three state agencies that we visited.

Figure 1
Locations We Visited During This Review



Sources: California State Auditor's visits to the locations listed above and Web sites for the State Hospitals, Veterans Affairs, and the Science Center.

Although we noted some variations between the locations we visited, they generally followed a similar process to account for employee timekeeping and attendance records. The process begins with each employee certifying his or her monthly absence and additional time worked report (time sheet), then forwarding it to his or her supervisor to review and approve the attendance recorded on the time sheet. At some locations, a timekeeper then collects the approved time sheet and compares it to other attendance records, such as sign-in sheets. Next, the supervisor or timekeeper forwards the time sheet to a personnel specialist, who is responsible for reviewing it and entering each employee's leave information into the leave accounting system.

State law limits state agencies' ability to correct errors that occur in this process. Specifically, if a state agency erroneously credits an employee with too much leave, that agency must initiate collection efforts within three years from the date of the overpayment. Although state law does not expressly define when an overpayment occurs, CalHR and CSU consider an overpayment as occurring when an employee uses the erroneous leave to cover absences from work or cashes out the leave.

Past Reviews and Investigations

Over the past several years, some state agencies have called attention to the State's accounting of employee leave. In March 2006 the state auditor released an investigative report that found that the Sierra Conservation Center (center) of the California Department of Corrections and Rehabilitation (Corrections) had inappropriately accounted for employee absences and consequently undercharged employees' leave balances. The investigation revealed that the center allowed nine exempt employees to work 10-hour days, which, because of language in the bargaining unit contract, allowed them to miss work without having to charge a total of more than 1,460 hours to their leave balances, resulting in a gift of public funds to the employees totaling more than \$49,000.

Further, in March 2013, the LAO issued a report explaining the impact of the furlough and personal leave programs on state employees' leave balances. According to the LAO, state employees used fewer hours of vacation and annual leave while the furlough and personal leave programs were in effect, causing them to accrue larger leave balances. The report provided options to the Legislature recommending that it take steps towards reducing or containing the future growth of the State's leave balances, thereby reducing the State's unfunded leave liability. The California Department of Finance (Finance) also released a report in March 2013 addressing its previous recommendation that State Hospitals institute timekeeping procedures to ensure that it

adequately prepares, certifies, and retains attendance records for future audits. In its report, Finance concluded that five of the seven state hospitals had yet to implement its recommendation.⁹

Most recently, the state auditor’s June 2013 investigative report identified weaknesses in the leave accounting processes of Corrections and California Correctional Health Care Services (Correctional Agencies). Specifically, the Correctional Agencies undercharged leave balances for nonmanagerial staff who were working alternate schedules, costing the State nearly \$147,000. Further, the Correctional Agencies made clerical errors in 47 employees’ leave balances, resulting in a net loss to the State of more than \$23,000.

Scope and Methodology

California Government Code, Section 8546.5, authorizes the state auditor to establish a high-risk audit program to identify state agencies and statewide issues that either present a high risk for potential waste, fraud, abuse, and mismanagement or that present major challenges related to their economy, efficiency, or effectiveness. In February 2009 the state auditor designated the State’s budget condition an area of high risk to the State. Because the LAO found that employee leave balances as of June 2012 represented a financial liability of \$3.9 billion, or about 27 percent of the State’s annual salary costs, these balances could significantly impact the State’s budget. We therefore reviewed the leave accounting system to determine if state agencies had erroneously credited leave to employees. We focused our review on the objectives listed in Table 2.

Table 2
Review Objectives and the Methods Used to Address Them

REVIEW OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the review objectives.	We reviewed relevant laws, rules, regulations, policy memoranda, collective bargaining agreements, and other background materials.
2 Review and evaluate the roles and responsibilities of the agencies that oversee the tracking of leave accounting information.	We interviewed key staff at the California Department of Human Resources (CalHR), the California State Controller’s Office (state controller), and the California State University’s Office of the Chancellor.
3 Review select application controls of the state controller’s California Leave Accounting System (leave accounting system).	<ul style="list-style-type: none"> • We reviewed system documentation for the leave accounting system. • We interviewed key staff at the state controller to determine whether the leave accounting system has controls that prevent agencies from entering erroneous leave transactions.

continued on next page...

⁹ Stockton State Hospital was opened in July 2013. Thus, it was not included in Finance’s March 2013 report.

REVIEW OBJECTIVE	METHOD
<p>4 For five years (2008 through 2012), determine whether state employees accrued leave within the maximum allowable limits defined by state law and collective bargaining unit agreements.</p>	<ul style="list-style-type: none"> • We performed a preliminary statewide electronic analysis of all employees whose leave is tracked in the leave accounting system (state employees) and identified the nine leave benefit categories for which state employees earned the most leave. • Using state law, collective bargaining agreements, and guidance from CalHR, we determined the maximum amount of leave that state employees were eligible to receive each month for eight of the nine leave benefits we reviewed. We did not review the remaining leave benefit—compensating time off—because the state controller’s payroll and leave accounting systems do not contain sufficient detail to allow us to conduct statewide electronic analysis of this leave benefit. • We analyzed the leave accounting system data to identify all instances in which state employees earned leave in excess of the maximums allowed each month. We used the state controller’s salary information to calculate the value of these erroneous leave hours based on state employees’ salaries when the error occurred and as of December 2013. • Our statewide electronic analysis could not account for all of the specific circumstances relating to individual transactions because knowledge of these circumstances would require a manual review of the employees’ time sheets. As such, certain transactions we identified as errors in our analysis may not be errors and, conversely, we may have identified some transactions as appropriate when they are in error. • The leave accounting system data we received from the state controller did not contain the number of months employees have worked for the State (months of state service). Because this information is necessary to calculate the amount of vacation and annual leave a state employee should earn each month, we assumed that all employees earned leave at the highest rates set forth by state law and the collective bargaining agreements. • Because most state employees must complete at least six months of work at the State before they are eligible to receive certain leave benefits, we used payroll data to identify the employees’ sixth month of pay.
<p>5 Review and evaluate the policies and procedures state agencies use for tracking leave accounting information.</p>	<ul style="list-style-type: none"> • Based on our preliminary statewide electronic analysis of state departments, agencies, California State University campuses, and other entities’ (state agencies) leave transactions in the leave accounting system, we selected three state agencies for manual review—the California Department of State Hospitals (State Hospitals), the California Department of Veterans Affairs (Veterans Affairs), and the California Science Center (Science Center). We selected these three agencies because they have large, medium, and small workforces and they appeared to have many employees earning leave in excess of the allowable maximums. • We conducted interviews at the three state agencies to determine their policies and procedures for timekeeping and leave accounting.
<p>6 For a selection of 45 time sheets for state employees who received erroneous furlough or personal leave program hours, determine whether the employees also received pay reductions.</p>	<p>We tested a total of 19 time sheets at the Science Center and Veterans Affairs, which represented all of their erroneous furlough and personal leave program transactions. We tested the remaining 26 time sheets at State Hospitals. Specifically, we reviewed the employees’ time sheets and payroll information to determine whether they received a reduction in their pay corresponding to the number of erroneous leave hours they received or if the state agencies gave the employees extra leave without reducing their pay.</p>
<p>7 For a selection of 60 time sheets from 2012, use source documents to determine whether agencies accurately calculated the amount of leave employees earned and used.</p>	<p>We randomly selected 20 time sheets at each of the three state agencies we visited and verified that they correctly entered the time sheet information into the leave accounting system and that all earned leave was appropriate. Although the State bases certain types of leave credit, such as vacation and annual leave, on an employee’s months of state service, we did not confirm the accuracy of the each state employee’s months of state service information for purposes of our manual review.</p>
<p>8 Determine if state agencies accurately tracked leave for employees working alternate work week schedules (alternate schedules).</p>	<p>For the three state agencies we visited, we haphazardly selected a total of 55 time sheets for state employees represented by employee organizations who worked alternate schedules. For these time sheets, we verified that the state agencies correctly calculated the number of hours the employees should have used to cover their absences from work and that the entities correctly entered the employees’ time sheet information into the leave accounting system.</p>

REVIEW OBJECTIVE	METHOD
9 Review and assess any other issues that are significant to leave accounting.	We reviewed the leave accounting system to identify all transactions where a state employee earned 250 or more hours of any leave benefit in one month and requested that the state agencies that processed the transactions provide supporting documentation. These transactions included a total of nearly 7,500 hours of compensatory time off, for which we found less than 24 hours to be in error. We found no additional errors besides those we previously identified in our statewide electronic analysis. Further, we removed all transactions that we determined were appropriate based on supporting documentation from our statewide electronic analysis.

Sources: California State Auditor's planning documents and analysis of information and documentation identified in the column titled *Method*.

Assessment of Data Reliability

In performing this review, we obtained electronic data files extracted from the information systems listed in Table 3. To assess the sufficiency and appropriateness of this computer-processed information, we conducted the analyses described in Table 3.

Table 3
Methods Used to Assess Data Reliability

INFORMATION SYSTEM	PURPOSE	METHODS AND RESULTS	CONCLUSION
California State Controller's Office's (state controller) California Leave Accounting System (leave accounting system) Data for the period from January 2008 through December 2012	Determine the amount of leave employees should have received.	<ul style="list-style-type: none"> • We performed data-set verification procedures and found no issues. • However, when we performed electronic testing of the leave accounting system, we found errors in more than 14,000 employees' records. • Additionally, we tested 60 time sheets by tracing the leave accounting system information back to supporting documents and found four errors. • Finally, we haphazardly selected 55 time sheets of employees who worked alternate work week schedules and traced the information back to supporting documents. We found 11 errors. 	Not sufficiently reliable for the purposes of this review. [†]
State controller Uniform State Payroll System (payroll data) Data for the period from July 2007 through December 2012	Review 60 time sheets to determine whether state agencies appropriately accounted for their employees' leave.	<ul style="list-style-type: none"> • We performed data-set verification procedures and electronic testing of key data elements and found no issues. • We relied on the accuracy testing performed as part of the State's annual financial audit for payroll transactions between July 2007 and June 2011.* Because we found the payroll data to be accurate between July 2007 and June 2011, we have reasonable assurance that the payroll data for the period of July 2011 through December 2012 are also accurate. • We relied on the completeness testing performed as part of the State's annual financial audit for payroll transactions between July 2007 and June 2013. 	Sufficiently reliable for the purposes of this review.

continued on next page ...

INFORMATION SYSTEM	PURPOSE	METHODS AND RESULTS	CONCLUSION
State controller Employee History Database Data for the period from January 2008 through December 2013	Determine the hourly salaries of employees we identified as having inappropriate leave transactions in the leave accounting system in order to calculate the value of this erroneous leave.	<ul style="list-style-type: none"> • We performed data-set verification procedures and electronic testing of key data elements and found no issues. • We did not perform accuracy or completeness testing because the pertinent supporting documents are located throughout the State, making such testing cost-prohibitive. 	Undetermined reliability. [†]

Sources: California State Auditor's (state auditor) analysis of various documents, interviews, and data obtained from the state controller.

* Beginning in July 2012 the state auditor revised its financial audit procedures and no longer performs transaction testing of payroll records.

† Although we concluded these systems were either not sufficiently reliable or of undetermined reliability for the purposes of our review, they were the best available sources for the data.

Results of Our Review

State Agencies Erroneously Credited Employees With More Than Six Million Dollars Worth of Unearned Leave

From January 2008 through December 2012, state departments, agencies, California State University (CSU) campuses, and other entities (state agencies) that participated in the California Leave Accounting System (leave accounting system) inappropriately credited their employees with unearned leave. Specifically, state agencies credited nearly 197,000 erroneous leave hours to more than 5 percent of employees for whom they tracked leave in the leave accounting system (state employees).¹⁰ As of December 2013, the cost of these errors was nearly \$6.4 million, some of which the State cannot recover because of restrictions in state law.¹¹ As we described in the Introduction, state law allows state agencies to recover overpayments to their employees only if the agencies initiate corrective action within three years of the date of the overpayment.

Further, the cost of the errors we identified will increase over time as state employees receive raises and promotions. As shown in Table 4 on the following page, when the state agencies initially entered the errors we identified into the leave accounting system, their value was approximately \$5.8 million. However, by December 2013 that value had risen nearly 9 percent, or the equivalent of more than \$500,000. This increase is the result of higher employee salaries and will continue to increase until the State corrects the errors.

The value of the unearned leave hours is also likely to increase when state employees retire or otherwise leave state service. As discussed in the Introduction, when employees separate from state service without fault, state law generally requires the affected agency to calculate those employees' lump-sum compensation for any accrued leave by projecting that accumulated leave on their work calendars as if they were still employed. Separating employees continue to earn additional leave until their accumulated leave balances are depleted. For example, the California Department of Corrections and Rehabilitation (Corrections) erroneously granted an employee 516 hours of holiday credit for February 2008 instead of the 16 hours to which he was entitled. Corrections failed to identify and correct the error before he retired in January 2009.

¹⁰ As discussed in detail in a later section, there may be circumstances relating to specific transactions that result in those transactions being appropriate or there may be additional errors that we did not identify. However, to account for all errors would have required a manual review of all state employees' time sheets, which was not feasible.

¹¹ This amount includes the value of all errors we identified through our statewide electronic analysis. Subsequent to our analysis, some state agencies may have taken corrective action prior to December 2013.

As a result, when Corrections calculated his lump-sum payment it compensated him for the 500 extra hours plus an additional 66 hours accrued on the unearned leave. Thus, as Figure 2 shows, Corrections erroneously paid him more than \$17,000 for the unearned leave. Corrections cannot recover these costs because more than three years have passed since it made the overpayment.

Table 4
Number and Value of Unearned Leave Hours Identified Through Statewide Electronic Analysis That State Agencies Credited to Their Employees From January 2008 Through December 2012

LEAVE TYPE	NUMBER OF AFFECTED STATE EMPLOYEES	NUMBER OF UNEARNED LEAVE HOURS*	VALUE OF UNEARNED LEAVE HOURS BASED ON THE STATE EMPLOYEES' SALARIES AT THE TIME OF THE ERRORS†	VALUE OF UNEARNED LEAVE HOURS BASED ON THE STATE EMPLOYEES' SALARIES AS OF DECEMBER 2013‡
Holiday Credit	9,951	127,209	\$3,805,987	\$4,146,269
Furlough Leave	1,208	26,062	744,232	817,512
Sick Leave	664	15,750	568,495	602,112
Personal Holiday	1,644	15,120	350,147	390,977
Personal Leave Program 2010	1,061	10,434	301,557	323,465
Personal Leave Program 2012	183	1,727	46,592	49,266
Annual Leave	5	388	25,230	25,252
Vacation Leave	6	55	2,315	2,240
Totals	14,302[§]	196,745	\$5,844,555	\$6,357,093

Sources: California State Auditor's analysis of data obtained from the California State Controller's Office's California Leave Accounting System and Employment History Database.

* There may be circumstances relating to specific transactions that result in these transactions being appropriate or there may be additional errors that we did not identify. However, to account for all errors would require a review of all state employees' time sheets.

† These values represent the salary costs for the unearned leave hours when the errors occurred should the state employees take that time off.

‡ These amounts include the value of all errors we identified through our statewide electronic analysis valued as of December 2013. However, subsequent to our analysis, some state agencies may have taken corrective action prior to December 2013.

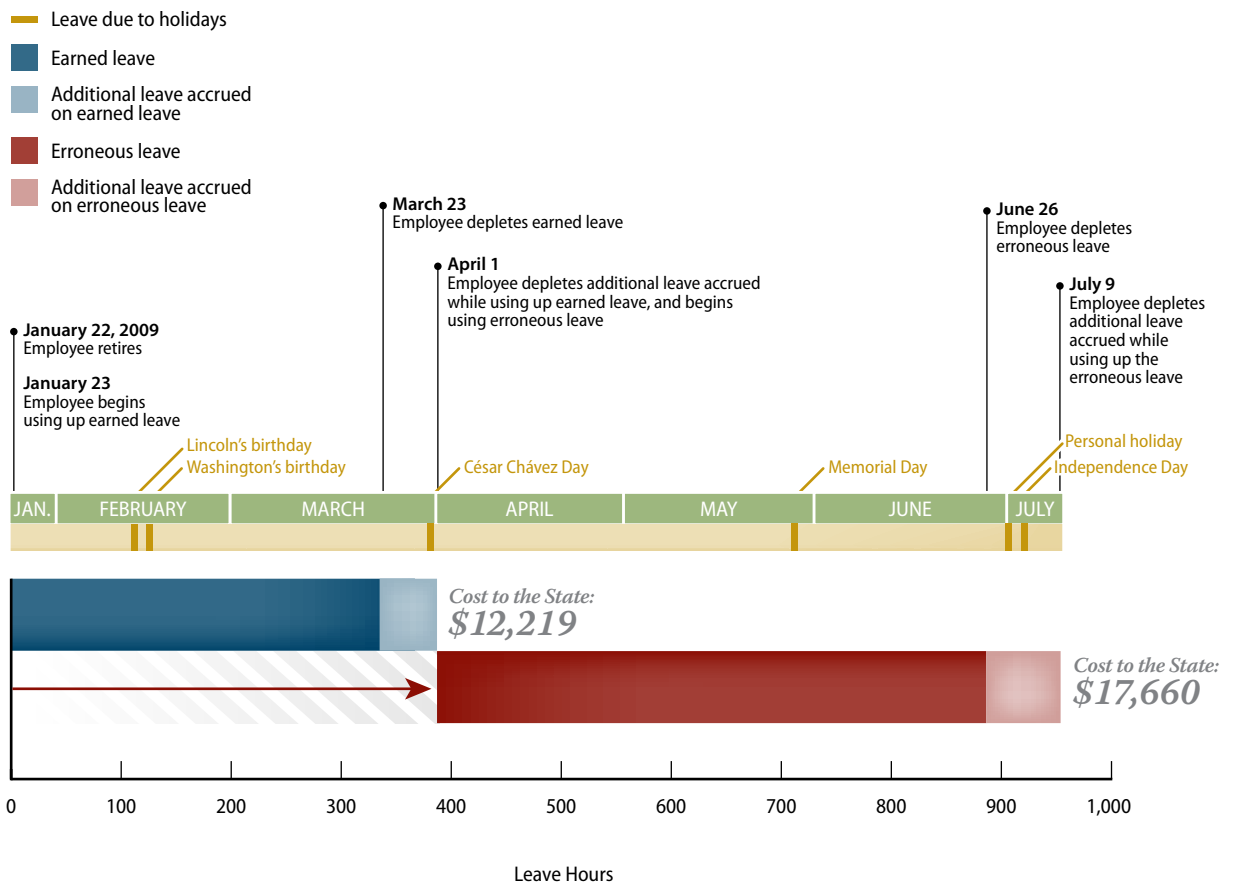
§ This number represents all state employees to whom state agencies credited unearned leave. Because some state employees inappropriately received leave hours for more than one leave type, the total for this column is less than the sum of the number of employees in the column.

Further, some inappropriate leave hours impact the State's pension program. Specifically, as discussed in the Introduction, the State converts employees' unused sick leave to state service credit when they retire. Because the State uses state service credit in its calculation of pension payments, sick leave errors in the leave accounting system may increase its long-term pension obligations.

Finally, unclear guidance in state law puts the State at risk of additional costs. As discussed in the Introduction, state agencies must initiate collection efforts on overpayments within three years from the date of overpayment. However, state law does not define when an overpayment occurs. Both the California Department of Human Resources (CalHR) and CSU consider overpayments of leave to occur when employees use the erroneous leave to cover

absences from work or to cash out unearned leave hours. Because of the absence of clear statutory language, in the event of litigation a court may find that the State waited too long to recover the funds that represent inappropriately credited leave hours. For this reason, we believe that the Legislature should amend state law to clarify the statute of limitation for recovering the overpayment of leave credits. For example, it could require state agencies to provide notice to the employee that he or she was inappropriately credited leave hours within three years from the date the employee was credited the hours or three years from the date the employee separated from state service and in instances of fraud, three years from the date the State discovered the fraud.

Figure 2
Payment of Accrued Leave for a January 2009 Retiree



Sources: California State Auditor's analysis of California Department of Corrections and Rehabilitation's personnel documents and data obtained from the California State Controller's Office's California Leave Accounting System.

From 2008 through 2012, 79 state agencies erroneously credited state employees more than 142,000 hours of holiday credit and personal holidays, worth more than \$4.5 million as of December 2013.

State Agencies Often Inappropriately Credited State Employees Time Off for Holidays

From 2008 through 2012, 79 state agencies erroneously credited state employees more than 142,000 hours of holiday credit and personal holidays, worth more than \$4.5 million as of December 2013. These errors occurred when state agencies entered erroneous credits for holidays that fell on Saturdays, when they misinterpreted collective bargaining agreements, and when they entered data incorrectly.

Many state agencies inappropriately granted state employees twice the allowable amount of holiday credit when holidays fell on Saturdays. As described in the Introduction, state employees typically receive eight hours of holiday credit when a holiday falls on their regularly scheduled day off. Accordingly, when a holiday falls on a Saturday, the California State Controller's Office (state controller) records eight hours of holiday credit in its leave accounting system for these employees and notifies state agencies that the employees received their holiday credit.¹² However, we found that some state agencies erroneously credited those same employees an additional eight hours of holiday credit, resulting in the employees receiving double the amount of leave to which they were entitled. For example, Corrections' Deuel Vocational Institution gave more than 300 employees twice the amount of holiday credit they were entitled to for Saturday holidays, resulting in nearly 2,500 hours of erroneous leave. Although only four months in our five-year review period were months with Saturday holidays, these months accounted for more than 35,000 hours, or 28 percent, of the inappropriate holiday credit hours we identified.

In addition, both the California Science Center (Science Center) and the Chula Vista Veterans Home (Chula Vista) misinterpreted collective bargaining agreements and consequently gave their employees too much holiday credit. Specifically, the Science Center misinterpreted the provisions of the collective bargaining agreements related to holiday compensation and gave employees an additional eight unearned hours of holiday credit when they worked on holidays that fell on their regularly scheduled workdays. Similarly, Chula Vista erroneously gave some of its employees twice the number of holiday credit hours to which they were entitled because it misinterpreted the collective bargaining agreements as well.

¹² As specified in collective bargaining agreements, some state employees earn other types or amounts of leave when holidays fall on a Saturday.

Finally, in addition to observed state holidays, state employees typically receive one personal holiday, equal to eight hours of leave, each year. However, we found that state agencies gave more than 1,600 state employees excess personal holidays, for a total of more than 15,000 hours of unearned leave.

State Agencies Gave State Employees Unearned Sick Leave, Annual Leave, and Vacation Leave

State agencies improperly credited state employees with more than 16,000 hours of sick, annual, and vacation leave from 2008 through 2012. Specifically, we identified 138 state employees who were entitled to receive either annual leave or vacation and sick leave hours but who instead received more than 2,700 hours of leave in excess of the limits set by law or collective bargaining agreements. For example, in 2008 San Diego State University (university) made a keying error when an employee transferred from part-time to full-time status. As a result, the university inappropriately granted her 20 hours of sick leave each month for the following four months instead of the eight hours to which she was entitled, resulting in her receiving 48 unearned sick leave hours.

Further, while state law and collective bargaining agreements allow certain state employees to earn either annual leave or vacation and sick leave each month, we found that state agencies credited 539 state employees with both annual leave and sick leave in the same month. From 2008 through 2012, these employees inappropriately received nearly 13,800 hours of sick leave in addition to the annual leave to which they were entitled. In fact, six of these employees inappropriately received eight hours of sick leave every month for the entire five-year period we reviewed. Although sick leave is typically not compensable in cash, state employees can use these hours to take paid time off for personal or family illness instead of using other accrued leave. Based on the employees' salaries as of December 2013, the value of these erroneous sick leave hours was approximately \$530,000. Alternatively, these state employees can convert sick leave to state service credit when they retire, potentially increasing their pension payments.

We found that state agencies credited 539 state employees with both annual leave and sick leave in the same month—the value of these erroneous sick leave hours was approximately \$530,000.

State Agencies Erroneously Gave Furlough and Personal Leave Program Hours to Some State Employees and Inappropriately Reduced the Pay of Others

From February 2009 through June 2013, the State implemented several furlough and personal leave programs that reduced the number of hours certain state employees worked each month in exchange for an equivalent reduction in their pay. However,

from 2009 through 2012, state agencies erroneously credited their employees with more than 38,000 unearned furlough and personal leave program hours, worth nearly \$1.2 million as of December 2013. For example, during July 2010, a month when the State did not furlough any employees, state agencies credited 315 state employees with more than 5,000 furlough hours.

To determine whether state agencies simply gave their employees erroneous leave hours or if they also inappropriately reduced the employees' pay, we tested a selection of 45 state employees who received unearned furlough or personal leave program hours at the three agencies we visited: the California Department of State Hospitals (State Hospitals), the California Department of Veterans Affairs (Veterans Affairs), and the Science Center. We identified three types of errors:

- State agencies inappropriately included state employees who were not subject to the furlough or personal leave programs, thus reducing these employees' pay in error.
- State agencies gave state employees erroneous furlough or personal leave hours without reducing their pay.
- State agencies credited state employees the correct number of hours but for the wrong program.

In our review of the 45 employees' time sheets, we found that State Hospitals and Veterans Affairs inappropriately included three employees in furlough or personal leave programs who were not subject to these programs. These state agencies gave the affected employees unearned leave credits and erroneously reduced their pay. For example, in December 2011, the Veterans Home of Barstow credited a supervisor eight personal leave program hours and reduced his pay by nearly 5 percent, even though he was not subject to the personal leave program.

Our review also found that the three state agencies inappropriately gave 37 employees a total of 571 unearned furlough or personal leave program hours. In these instances, the agencies did not impose a corresponding reduction in the employees' pay. For example, Chula Vista credited an employee 32 hours of furlough in July 2010, a month when the State did not furlough any employees, without reducing the employee's pay.

Finally, we found that in five separate instances, State Hospitals and Veterans Affairs credited four state employees with the correct amount of leave but for the wrong furlough or personal leave program category. For example, the Veterans Home of West Los Angeles gave one employee eight personal leave program

hours during August 2012 when he should have earned eight hours of furlough. Because the leave categories have different usage rules that could impact employee compensation, inappropriately crediting hours to the wrong leave category could eventually increase the State's financial liability.

Our Analysis Cannot Account for All of the Types of Errors That State Agencies Made

Our analysis suggests that, as of December 2013, state agencies have credited state employees with nearly \$6.4 million in unearned leave from 2008 through 2012. However, assessing the true magnitude of the problem would require a manual review of the monthly time sheets for the more than 275,000 state employees whose leave was tracked in the leave accounting system during our review period. Our statewide electronic analysis compared actual employee leave accruals to the maximum allowable accruals specified in state law or collective bargaining agreements. This analysis could not account for all of the specific circumstances relating to individual transactions because knowledge of these circumstances would require a manual review of time sheets. As such, certain transactions we identified as errors in our analysis may not be errors and, conversely, we may have identified some transactions as appropriate when they were in error. For example, we were unable to identify instances in which employees received more leave than they were entitled to but less than the maximum allowed, such as part-time employees who received more leave than the prorated amounts to which they were entitled. We also were not able to identify instances in which state agencies gave employees too little leave or overcharged employees' leave balances when they took time off from work.

To determine the prevalence of such errors within the leave accounting system, we reviewed a selection of 20 time sheets at each of the three state agencies we visited. We confirmed one error that we had previously identified through our statewide electronic analysis. Additionally, we found three errors that we had not previously identified in that analysis. Specifically, the Veterans Home of Yountville incorrectly gave a part-time employee 16 hours of holiday credit instead of the eight hours to which she was entitled. In addition, the Science Center failed to credit an employee eight hours of compensating time off that he had earned. Finally, the Atascadero State Hospital inappropriately gave an employee eight excess hours of leave.¹³

Our analysis suggests that, as of December 2013, state agencies have credited state employees with nearly \$6.4 million in unearned leave from 2008 through 2012.

¹³ An employee can earn excess hours when working an alternate work week schedule (alternate schedule) as described in the Introduction.

We also tested a total of 55 time sheets for state employees who worked alternate schedules at the three state agencies we visited and we found similar errors. The three state agencies did not always require their employees to use leave when their alternate schedules resulted in them working fewer hours for the month than required. As shown in Table 5, the three state agencies failed to charge their employees a total of 43.5 hours of leave, at a cost to the State of \$1,056. For example, in March 2012 Veterans Affairs failed to charge one employee seven hours of leave to account for the full number of required work hours as state law and regulations define. Further, two of the three state agencies overcharged other employees who worked an alternate schedule a total of 18 hours, at a cost to those employees of \$416. For example, Patton State Hospital overcharged one employee eight hours of leave in July 2012. Because we could not identify these types of errors in our statewide electronic analysis, it is likely that significantly more errors of this nature exist in the leave accounting system.

Table 5
Three State Agencies' Inappropriate Leave Transactions for Employees on Alternate Work Week Schedules During 2012

STATE AGENCY	NUMBER OF TIME SHEETS REVIEWED	NUMBER OF TIME SHEETS WITH ERRORS	NUMBER OF HOURS THAT THE AGENCY UNDERCHARGED EMPLOYEES' LEAVE	VALUE OF UNDERCHARGED HOURS AS OF DECEMBER 2013	NUMBER OF HOURS THAT THE AGENCY OVERCHARGED EMPLOYEES' LEAVE	VALUE OF OVERCHARGED HOURS AS OF DECEMBER 2013
California Department of State Hospitals (State Hospitals)	19	3	4.0	\$175	12	\$272
California Department of Veterans Affairs (Veterans Affairs)	16	4	11.5	287	0	0
California Science Center (Science Center)	20	4	28.0	594	6	144
Totals	55	11	43.5	\$1,056	18	\$416

Sources: California State Auditor's analysis of data obtained from the California State Controller's Office's California Leave Accounting System and Employment History Database, and time sheets obtained from State Hospitals, Veterans Affairs, and the Science Center.

State Controller Could Strengthen Its Leave Accounting System Controls to Assist State Agencies in Detecting and Correcting the Types of Erroneous Transactions We Identified

Although the State Controller is responsible for maintaining and supporting the leave accounting system, each participating state agency is responsible for the accuracy and completeness of its data. Nevertheless, weaknesses in the state controller's leave accounting system contribute to the enormity of the problems we found. Specifically, the leave accounting system lacks sufficient controls that assist state agencies in ensuring that their leave transactions are complete, accurate, and valid. Ideally, the leave accounting system

would leverage a combination of automated and manual controls to prevent and detect incorrect leave transactions. However, we found that its existing automated and manual controls are not adequate to prevent and detect the types of errors we identified in our statewide electronic analysis. In addition to this lack of sufficient controls, during our review period the leave accounting system did not generate reports that would easily identify unusual transactions to enable state agencies to detect errors. Similarly, it did not identify inappropriate manual adjustments that state agencies make to the total number of months a state employee has worked for the State (state service balance), a key factor in determining the amount of leave an employee earns each month.

The automated controls in the state controller's leave accounting system do not always prevent state agencies from crediting state employees with leave to which they are not entitled. We would expect a system for tracking state employee leave balances to apply accurately the conditions set forth in state law and collective bargaining agreements. For example, the leave accounting system should have automated controls to prevent state agencies from crediting employees with more than the respective maximum allowable hours for each type of leave each month or with concurrent accruals of both sick leave and annual leave. According to the state controller, the leave accounting system has automated controls to ensure the accuracy of certain types of monthly accruals, such as vacation and sick leave, but lacks controls for certain benefits such as holiday credit and furlough. When we asked the chief of the state controller's Personnel and Payroll Services Division—the division that maintains the leave accounting system—why the system lacks controls that would prevent the types of errors we identified, she stated that it was designed to be flexible enough to accommodate the multitude of benefits for which employees are eligible, including the nuances created by collective bargaining agreements, time bases, and the use of alternate schedules. However, as shown by the results of our statewide electronic analysis in Table 4 on page 18, we identified many instances in which state agencies credited their employees with inappropriate amounts of leave despite the state controller's automated controls. Although we realize it would not be cost-effective to design automated controls capable of detecting every type of error, we would expect the state controller to have developed automated controls to detect the types of errors we present in Table 4.

At times, these errors have resulted in significant costs to the State. For example, in May 2009 the Porterville Developmental Center (Porterville) of the California Department of Developmental Services (Developmental Services) gave one employee 800 hours of holiday credit instead of the eight hours to which she was entitled. Further, in March 2010, Porterville repeated this same keying error

The automated controls in the state controller's leave accounting system do not always prevent state agencies from crediting state employees with leave to which they are not entitled.

for another employee. Had we not detected these errors, they would have resulted in Porterville awarding the employees with unearned leave credits worth nearly \$36,000. When we brought these transactions to the attention of Developmental Services, staff there confirmed that both were the result of data entry errors. Porterville is taking action to resolve these issues. Similarly, the California Department of Education (Education) inappropriately credited one employee with eight hours of sick leave each month in addition to her monthly accrual of annual leave for the entire five-year period we reviewed. After we brought this error to Education's attention, Education found that it had erroneously credited her with sick leave each month for more than 10 years. As a result, Education had given her 968 hours of sick leave to which she was not entitled. According to Education, it ultimately completed corrections to this employee's leave balances in January 2014.

In the absence of adequate automated controls over its leave accounting system, the state controller could generate monthly exception reports that identify unusual or unexpected leave transactions for state agencies to review manually. Currently, the state controller produces a monthly report detailing each employee's leave balances and activity, which requires state agencies to review this information for each of their employees to identify errors. The addition of exception reports would allow state agencies to more quickly and easily identify transactions that are at the greatest risk of being inappropriate, such as employees at any state agency who earned more than eight hours of sick leave during a month. These reports would allow state agencies to quickly identify the employees receiving more than the maximum allowable hours of leave. However, during our review period, the state controller did not generate such a monthly exception report.

In fact, when we prepared an exception report of unusually high leave transactions, we identified one instance where Coalinga State Hospital erroneously gave an employee 1,212 hours of holiday credit in December 2012, worth more than \$33,000, instead of the eight hours to which she was entitled. When we brought this transaction to the attention of Coalinga State Hospital in May 2013, it voided this transaction and entered a new transaction giving the employee eight hours of holiday credit. Without this type of exception report, state agencies might not detect similar errors.

Similarly, state agencies could also use exception reports to monitor changes to their employees' months of state service balances. The leave accounting system relies on these balances to calculate how many hours of annual or vacation leave employees are eligible to accrue each month. The leave accounting system allows state

We identified one instance where Coalinga State Hospital erroneously gave an employee 1,212 hours of holiday credit in December 2012, worth more than \$33,000, instead of the eight hours to which she was entitled.

agencies to manually update an employee's state service balance.¹⁴ However, during our review period, there was no mechanism in place to notify state agencies when changes were made. This makes the system vulnerable both to errors when making such updates and to deliberate wrongdoing. Because there is no statewide requirement to audit the state service balance in the leave accounting system, agencies are unlikely to detect errors unless they are able to review an exception report; however, at the time of our statewide electronic analysis no such report was being generated by the state controller. As a result, state agencies could inappropriately grant additional leave credits to state employees each month.

In September 2013 we discussed the idea of implementing exception reports with the chief of the state controller's Personnel and Payroll Services Division and she agreed that the reports could improve the controls over the leave accounting system. In fact, in February 2014, the state controller began producing exception reports that identify transactions crediting employees more than 100 hours each for the following leave types: compensating time off, holiday credit, and excess hours. In addition, the state controller began producing a report identifying certain state service balance transactions. However, additional exception reports could be developed to identify transactions that credit employees with more than the maximum allowable leave for a specific leave benefit. This would further ensure that state agencies accurately track employees' leave hours.

CalHR Needs to Provide Additional Guidance on Leave Accounting

Another factor that has contributed to state agencies crediting unearned leave to state employees is the failure of CalHR to define state policy sufficiently for employees who work alternate schedules, which may have caused one state hospital we visited to account inappropriately for its employees' leave. Further, some state agencies have misinterpreted collective bargaining agreements. Specifically, two locations we visited misinterpreted collective bargaining agreements and consequently granted unearned leave hours to their employees. We believe that CalHR should provide additional guidance to state agencies to avoid these types of misinterpretations.

CalHR does not have sufficient policies in place related to employees who work alternate schedules. Because collective bargaining agreements do not provide guidance on how to track leave benefits for employees who adhere to alternate schedules, we expected that CalHR would have provided statewide policies. While we identified some relevant policy memoranda that CalHR issued, these

Two locations we visited misinterpreted collective bargaining agreements and consequently granted unearned leave hours to their employees.

¹⁴ The leave accounting system limits access to an employee record to the most current employing state agency.

CalHR does not provide specific guidance to state agencies that instructs them to track the number of hours worked and, as a result, we found that this was not occurring at one state hospital.

memoranda did not address how state agencies should account for hourly employees working alternate schedules. When we followed up with CalHR about its policies, it provided us with some additional guidance that was last updated in March 1984. However, this guidance is not readily available for state agencies to access. Although CalHR's Web site contains internal procedures for its own employees who work alternate schedules, these internal procedures are not statewide policies and do not apply to all state employees.

In the absence of clear guidance from CalHR related to alternate schedules, state agencies may be overcompensating employees who work less than the required number of monthly hours or, alternatively, undercompensating employees who work more than the required number of hours in a month. For example, employees who do not work the required number of hours in a month must generally receive a reduction in pay for the month or must use leave hours to balance the deficit in the hours worked. Thus, it is critical that state entities track the number of hours that employees work each month to ensure that these employees are compensated correctly. However, CalHR does not provide specific guidance to state agencies that instructs them to track the number of hours worked and, as a result, we found that this was not occurring at one state hospital. Specifically, Napa State Hospital did not track whether employees worked the required number of hours each month when its employees worked an alternate schedule; thus, it was not adjusting the employees' leave balances or pay accordingly. The human resources director indicated that she did not believe it was necessary to track the monthly hours because an employee working an alternate schedule should work the appropriate number of hours over the course of a year. However, when we reviewed the scheduled hours of one employee working an alternate schedule for 2013, we found that by the end of the year that employee would have been overcompensated for 18 hours. Additionally, Napa State Hospital cannot guarantee that its employees who are working alternate schedules will remain on that schedule for a full year. Ultimately, according to the human resources director, Napa State Hospital began tracking the hours of employees working an alternate schedule in January 2014. However, additional guidance from CalHR to all state agencies on how they should track the hours of the employees who work alternate schedules would help ensure that these employees are appropriately compensated.

Further, we identified two state agencies that misinterpreted collective bargaining agreements. Specifically, the Science Center misinterpreted language in collective bargaining agreements, causing it to grant employees more holiday credit than it should have. The collective bargaining agreements for the Service Employees International Union, Local 1000, all state that "when a full-time employee in Work Week Group 2 is required to work on a premium

holiday, the employee shall receive eight hours of holiday credit and one and one-half the hourly rate for all hours worked on the observed holiday, compensable by holiday credit, cash, or compensatory time off.”¹⁵ According to CalHR’s manager of its Personnel Services Branch, this provision identifies the total compensation—in regular pay and leave hours—that employees receive for working on a premium holiday. Therefore, the manager indicated that if employees work eight hours on a premium holiday that falls on their regularly scheduled workday, they are entitled to their normal eight hours of pay plus an additional 12 hours of compensation in the form of holiday credit, cash, or compensatory time off. However, the Science Center believed this provision of the collective bargaining agreement specified compensation in addition to employees’ regular pay and thus routinely granted its employees eight hours of pay as well as 20 hours of holiday credit rather than the appropriate 12 hours.

Similarly, the Science Center misinterpreted the section of the collective bargaining agreements related to nonpremium holidays. As a result, when some of its employees worked eight hours on a nonpremium holiday that fell on their regularly scheduled workday, the Science Center gave them eight hours of pay and 16 hours of holiday credit, instead of the eight hours of holiday credit to which they were entitled. In total, we questioned more than 4,500 hours, or nearly 13 percent, of the holiday credit hours the Science Center gave its employees from January 2008 through December 2012.

Additionally, Chula Vista inappropriately calculated the amount of holiday credit its state employees should have received for a Saturday holiday that occurred in March 2012. Specifically, Chula Vista gave 118 employees eight hours of holiday credit, after the state controller had already given these employees eight hours, or twice the hours they were entitled to, for a total of more than 900 hours of unearned leave. According to Chula Vista’s senior personnel specialist, she understood that the pertinent collective bargaining agreement entitled employees to receive eight hours of holiday credit for working on a holiday in addition to the eight hours of holiday credit the state controller gave the employees. However, according to CalHR, it is inappropriate for a state agency to provide the holiday credit to state employees when the state controller has already done so. Therefore, Chula Vista’s employees were not entitled to receive the additional eight hours of holiday credit.

To avoid these types of misinterpretations of collective bargaining agreements, CalHR should provide state agencies with additional guidance. Specifically, CalHR could provide example scenarios

To avoid these types of misinterpretations of collective bargaining agreements, CalHR should provide state agencies with additional guidance.

¹⁵ Work Week Group 2 employees are hourly employees covered by the federal Fair Labor Standards Act. Premium holidays include New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas.

showing the amount of leave employees earn in common situations. These scenarios would allow state agencies to quickly understand how to apply collective bargaining agreements and reduce the risk that state agencies inappropriately credit leave to their employees.

Three State Agencies We Visited Did Not Have Processes to Identify Erroneous Leave Transactions

Although state law requires all state agencies to ensure the accuracy of their leave accounting information, the three state agencies we visited did not have sufficient processes in place to verify that their leave accounting data are correct. Specifically, we visited 14 locations administered by State Hospitals, Veterans Affairs, and the Science Center and found that each had procedures for reviewing employees' time sheets to ensure their accuracy in terms of the leave the employees used and earned during the month. However, only two locations implemented procedures—which were limited—during our review period to confirm that their staff properly entered this leave information into the leave accounting system.

State regulation requires every state agency to maintain accurate leave records. In compliance with this regulation, each of the 14 locations we visited had procedures in place to verify their employees' leave information on their time sheets. However, each location followed a different process to validate this information. For example, the Human Resources director at Vacaville State Hospital stated that supervisors review and approve their employees' time sheets each month, then forward them to human resources for entry into the leave accounting system. In contrast, the Human Resources director at Napa State Hospital stated that shift supervisors, unit supervisors, timekeepers, and the program director each review employees' time sheets and other attendance records before forwarding them to Human Resources for final review and entry into the leave accounting system.

Although the locations we visited had procedures in place to review their employees' time sheets, they typically did not have procedures for ensuring that state agencies properly entered this information into the leave accounting system. In fact, during our review period from January 2008 through December 2012, only two of the locations we visited had procedures in place, albeit limited, to identify keying errors in the leave accounting system. Specifically, the personnel supervisor at Patton State Hospital asserted that it performed monthly reviews of its leave accounting data for a sample of employees between November 2011 and January 2012. Likewise, the Science Center's Human Resources director stated that in October 2012, it began reviewing its leave accounting data for a sample of employees each month. Finally, two state hospitals asserted that they began conducting monthly audits of their leave information in early 2013, after our review period ended.

During our review period from January 2008 through December 2012, only two of the locations we visited had procedures in place, albeit limited, to identify keying errors in the leave accounting system.

Unless state agencies implement consistent, comprehensive procedures for reviewing the information entered into the leave accounting system, keying errors are likely to continue to occur. These errors may remain undetected or only be detected years later if the agencies do not review any or review only a small number of leave accounting entries. For example, in reviewing the leave accounting system data for Patton State Hospital, we identified one state employee who was granted 524 hours of holiday credit in November 2009 instead of the 24 hours to which she was entitled. If, at that time, Patton State Hospital had in place a monthly procedure for reviewing leave transactions entered into the leave accounting system, it would have been more likely to identify and correct this error shortly after it occurred.

Recommendations

The Legislature should amend state law to clarify the statute of limitations for recovering the overpayment of leave credits. For example, it could require state agencies to provide notice to the employee that he or she was inappropriately credited leave hours within three years from the date the employee was credited the hours or three years from the date the employee separated from state service and, in instances of fraud, three years from the date the State discovered the fraud.

To correct the erroneous leave hours we identified in our analysis of the leave accounting system, CalHR should work with the state controller and all state agencies under its authority to review and take the appropriate action to correct the errors by January 2015.

To correct the erroneous leave hours we identified in our analysis of the leave accounting system related to the CSU, CSU's Office of the Chancellor should work with the CSU campuses to review and take the appropriate action to correct the errors by January 2015.

To improve the accuracy of information in the leave accounting system and to ensure that agencies do not improperly credit employees with leave in the future, the state controller should do the following:

- Implement additional controls by June 2015 to prevent the leave accounting system from processing the types of inappropriate transactions we identified in our statewide electronic analysis. For example, it could develop cost-effective controls in the leave accounting system that would prevent employees from receiving annual leave and sick leave during the same pay period.

- Work with CalHR to establish procedures by January 2015 for updating the criteria it uses to produce the monthly exception reports to ensure that the criteria reflect changes in state law and collective bargaining agreements.
- Using criteria provided by CalHR, develop monthly exception reports that identify transactions in the leave accounting system that are inconsistent with the guidelines established in state law and collective bargaining agreements, such as instances in which state employees receive too many personal holidays or too much holiday credit. By June 2015 begin providing each state agency's human resources management with the transactions identified in the exception reports for review and correction as necessary.

To ensure that state agencies accurately account for their employees' leave benefits, CalHR should do the following:

- Consolidate guidance by January 2015 regarding the appropriate amount of leave that employees should earn each month and provide these criteria to the state controller to use when developing the leave accounting system's monthly exception reports. For example, CalHR should identify the number of holiday credit hours that employees covered by each collective bargaining agreement should receive for working on a holiday.
- Work with the state controller to establish procedures by January 2015 for updating these criteria to ensure that they reflect any changes to state law and collective bargaining agreements.
- Establish general parameters and issue guidance to state agencies by January 2015 on how to account for the leave hours for employees who work alternate work week schedules.
- Provide additional guidance to state agencies by January 2015 on interpreting the provisions of the collective bargaining agreements related to the amount of leave employees earn. For example, CalHR could provide scenarios to illustrate the number of hours employees should earn under common circumstances.
- Develop guidelines and procedures by January 2015 requiring all state agencies to review information their personnel specialists enter into any system they use to track state employees' leave transactions.

By February 2015 the Science Center should provide training to all of its personnel specialists on the number of leave hours employees earn for working on holidays.

By February 2015 Chula Vista should provide training to all of its personnel specialists regarding the number of leave hours employees earn for working on holidays that fall on Saturdays.

We prepared this report under the authority vested in the California State Auditor by Section 8546 of the California Government Code.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: August 26, 2014

Staff: Denise L. Vose, CPA, Deputy State Auditor
Michelle J. Baur, CISA, Audit Principal
Ben Ward, CISA, ACDA
Sarah Rachael Black, MBA
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Amanda H. Saxton, Sr. Staff Counsel

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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Appendix A

OVERVIEW OF THE FURLOUGH AND PERSONAL LEAVE PROGRAM FOR STATE EMPLOYEES AND THE FURLOUGH PROGRAM FOR CALIFORNIA STATE UNIVERSITY EMPLOYEES

We worked with the California Department of Human Resources to identify the timeline and number of furlough and personal leave program hours that state employees received from February 2009 through June 2013. Further, we reviewed the technical letter describing the implementation of the California State University (CSU) furlough program to determine the number of furlough hours CSU employees received from July 2009 through June 2010. Figure A on the following page details the time frame that each program was in effect, and the total reduction in hours per month for each of the State's represented employees, the State's non-represented employees, and the CSU employees. Table A beginning on page 38 describes each collective bargaining unit and identifies the associated union.

- * The California Department of Forestry and Fire Protection was only furloughed between February 2009 and May 2009.
- † Employees at the following agencies were exempted from the furlough program: California Public Utilities Commission, Office of Legislative Counsel, California State Auditor, and the California Department of Forestry and Fire Protection. Effective September 2009 employees at the State Compensation Insurance Fund were also exempted from the program. In addition, salaried seasonal employees and retired annuitants were exempted from the program. The California State Auditor voluntarily participated in a self-directed eight-hour furlough program.
- ‡ Excludes employees associated with bargaining units 5, 8, 12, 16, 18, and 19, and employees at the State Board of Equalization, California State Auditor, California Department of Forestry and Fire Protection, California Earthquake Authority, California Highway Patrol, California Housing Finance Agency, Employment Development Department, Franchise Tax Board, Office of Legislative Counsel, California Public Utilities Commission, and the State Compensation Insurance Fund from the furlough program. Also, certain seasonal employees were exempted from the furlough program.
- § Employees represented by bargaining units 2, 6, 7, 9, 10, and 13 that worked at the State Board of Equalization, California State Auditor, California Department of Forestry and Fire Protection, California Earthquake Authority, California Highway Patrol, Employment Development Department, Franchise Tax Board, Office of Legislative Counsel, California Public Utilities Commission, and the State Compensation Insurance Fund were exempted from the furlough program.
- || Excludes employees at the State Compensation Insurance Fund in bargaining units 2, 10, and 13 from the Personal Leave Program (PLP) 2010 program.
- # Beginning in July 2011, represented employees in bargaining unit 10 could elect to accelerate the salary reduction and leave accrual for the PLP 2010 program and receive up to 24 hours each month provided they did not exceed 96 hours between July 2011 and June 2012.
- ** Beginning in August 2012, represented employees in bargaining unit 10 could elect to accelerate the salary reduction and leave accrual for the PLP 2012 program and receive up to 24 hours each month provided they did not exceed 96 hours between July 2012 and June 2013.
- †† Beginning in October 2012, represented employees in bargaining unit 19 could elect to accelerate the salary reduction and leave accrual for the PLP 2012 program and receive up to 24 hours each month provided they did not exceed 96 hours between July 2012 and June 2013.
- ‡‡ Excludes employees associated with bargaining units 5 and 8.
- §§ As requested, the California State University implemented a furlough program for one year. However, the program excluded employees in bargaining units 8, 11, and 12.

Table A
Collective Bargaining Units Representing State and California State University Employees

State of California Collective Bargaining Units

COLLECTIVE BARGAINING UNIT	COLLECTIVE BARGAINING UNION NAME
Unit 1 : Professional, Administrative, Financial, and Staff Services	Service Employees International Union (SEIU), Local 1000
Unit 2 : Attorneys and Hearing Officers	California Attorneys, Administrative Law Judges, and Hearing Officers in State Employment
Unit 3 : Professional Educators and Librarians	SEIU, Local 1000
Unit 4 : Office and Allied	SEIU, Local 1000
Unit 5 : Highway Patrol	California Association of Highway Patrolmen
Unit 6 : Corrections	California Correctional Peace Officers Association
Unit 7 : Protective Services and Public Safety	California Statewide Law Enforcement Association
Unit 8 : Firefighters	California Department of Forestry Firefighters
Unit 9 : Professional Engineers	Professional Engineers in California Government
Unit 10 : Professional Scientific	California Association of Professional Scientists
Unit 11 : Engineering and Scientific Technicians	SEIU, Local 1000
Unit 12 : Craft and Maintenance	International Union of Operating Engineers (IUOE)
Unit 13 : Stationary Engineers	IUOE
Unit 14 : Printing and Allied Trades	SEIU, Local 1000
Unit 15 : Allied Services	SEIU, Local 1000
Unit 16 : Physicians, Dentists, and Podiatrists	Union of American Physicians and Dentists
Unit 17 : Registered Nurses	SEIU, Local 1000
Unit 18 : Psychiatric Technicians	California Association of Psychiatric Technicians
Unit 19 : Health and Social Services/Professional	American Federation of State, County, and Municipal Employees
Unit 20 : Medical and Social Services	SEIU, Local 1000
Unit 21 : Educational Consultant and Library	SEIU, Local 1000

California State University (CSU) Collective Bargaining Units

COLLECTIVE BARGAINING UNIT	COLLECTIVE BARGAINING UNION NAME
Unit 1 : Physicians	California Federation of the Union of American Physicians and Dentists
Unit 2 : Health Care Support	California State University Employees' Union (CSUEU), SEIU, Local 2579
Unit 3 : Faculty	California Faculty Association
Unit 4 : Academic Support	Academic Professionals of California
Unit 5 : Operations Support Services	CSUEU, SEIU, Local 2579
Unit 6 : Skilled Crafts	State Employees Trade Council
Unit 7 : Clerical/Administrative Support Services	CSUEU, SEIU, Local 2579
Unit 8 : Public Safety	Statewide University Police Association
Unit 9 : Technical Support Services	CSUEU, SEIU, Local 2579
Unit 10 : Crafts, Maintenance and Sanitary Engineer Employees at the California Maritime Academy	International Union of Operating Engineers, Stationary Engineers, Local 39, AFL-CIO
Unit 11 : Teaching Associates, Graduate Assistants, Instructional Student Assistants	International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America, AFL-CIO, Local 4123
Unit 12 : Head Start	CSUEU, SEIU, Local 790
Unit 13 : English Language Program Instructors, CSU Los Angeles	CSUEU, SEIU, Local 2579

Appendix B

STATE ENTITIES THAT USE THE CALIFORNIA LEAVE ACCOUNTING SYSTEM

The following state departments, agencies, California State University campuses, and other entities (state agencies) participated in the California State Controller's Office's California Leave Accounting System for at least one month between January 2008 and December 2012:¹⁶

Air Resources Board

Alcoholic Beverage Control Appeals Board

Baldwin Hills Conservancy

Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun

Board of State and Community Corrections

California African American Museum

California Alternative Energy and Advanced Transportation Financing Authority

California Arts Council

California Career Resource Network

California Citizens Redistricting Commission

California Commission on Aging

California Commission on Disability Access

California Commission on the Status of Women and Girls

California Community Colleges Board of Governors

California Conservation Corps

California Court of Appeal, 1st District Court of Appeal

California Court of Appeal, 2nd District Court of Appeal

California Court of Appeal, 3rd District Court of Appeal

California Court of Appeal, 4th District Court of Appeal

¹⁶ We relied on the state agencies' Web sites and the Governor's budgets to identify the state agencies' names as of November 2013.

California Court of Appeal, 5th District Court of Appeal
California Court of Appeal, 6th District Court of Appeal
California Debt and Investment Advisory Commission
California Debt Limit Allocation Committee
California Department of Aging
California Department of Alcoholic Beverage Control
California Department of Business Oversight
California Department of Child Support Services
California Department of Community Services and Development
California Department of Conservation
California Department of Consumer Affairs
California Department of Corrections and Rehabilitation
California Department of Developmental Services
California Department of Education
California Department of Fair Employment and Housing
California Department of Finance
California Department of Fish and Wildlife
California Department of Food and Agriculture
California Department of Forestry and Fire Protection
California Department of General Services
California Department of Housing and Community Development
California Department of Human Resources
California Department of Industrial Relations
California Department of Justice
California Department of Motor Vehicles
California Department of Parks and Recreation
California Department of Pesticide Regulation
California Department of Resources Recycling and Recovery
California Department of State Hospitals

California Department of Technology
California Department of Toxic Substances Control
California Department of Transportation
California Department of Veterans Affairs
California Earthquake Authority
California Educational Facilities Authority
California Emergency Medical Services Authority
California Environmental Protection Agency
California Gambling Control Commission
California Government Operations Agency
California Health and Human Services Agency
California Health Benefit Exchange
California Health Facilities Financing Authority
California High-Speed Rail Authority
California Highway Patrol
California Housing Finance Agency
California Industrial Development Financing Advisory Commission
California Institute for Regenerative Medicine
California Judicial Center Library
California Law Revision Commission
California Maritime Academy
California Military Department
California Native American Heritage Commission
California Natural Resources Agency
California Office of Emergency Services
California Office of Traffic Safety
California Pollution Control Financing Authority
California Public Employees' Retirement System
California School Finance Authority

California Science Center
California Senior Legislature
California State Auditor
California State Board of Equalization
California State Controller's Office
California State Independent Living Council
California State Lands Commission
California State Library
California State Lottery
California State Parks, Division of Boating and Waterways
California State Polytechnic University, Pomona
California State Summer School for the Arts
California State Teachers' Retirement System
California State Transportation Agency
California State University Channel Islands
California State University San Marcos
California State University, Bakersfield
California State University, Board of Trustees
California State University, Chico
California State University, Dominguez Hills
California State University, East Bay
California State University, Fresno
California State University, Los Angeles
California State University, Monterey Bay
California State University, Sacramento
California State University, San Bernardino
California State University, Stanislaus
California Tahoe Conservancy
California Tax Credit Allocation Committee

California Transportation Commission
California Urban Waterfront Area Restoration Financing Authority
Coachella Valley Mountains Conservancy
Coastal Conservancy
Commission on Judicial Performance
Commission on Peace Officer Standards and Training
Commission on State Mandates
Commission on Teacher Credentialing
Delta Conservancy
Delta Protection Commission
Delta Stewardship Council
Department of Managed Health Care
Department of Rehabilitation
Department of Social Services
Education Audit Appeals Panel
Electricity Oversight Board
Employment Development Department
Energy Resources Conservation and Development Commission
Financial Information System for California
First 5 California
Governor Elect and Outgoing Governor
Governor's Office of Business and Economic Development
Habeas Corpus Resource Center
Humboldt State University
Judicial Council of California
Labor and Workforce Development Agency
Little Hoover Commission
Managed Risk Medical Insurance Board
Mental Health Services Oversight and Accountability Commission

Office of Administrative Law
Office of Environmental Health Hazard Assessment
Office of Legislative Counsel
Office of Statewide Health Planning and Development
Office of Systems Integration
Office of the Inspector General
Office of the State Public Defender
Office of the State Treasurer
Postsecondary Education Commission
Public Employment Relations Board
San Diego River Conservancy
San Diego State University
San Gabriel and Lower Los Angeles Rivers and
Mountains Conservancy
San Joaquin River Conservancy
Santa Monica Mountains Conservancy
Scholarshare Investment Board
Seismic Safety Commission
Sonoma State University
State Compensation Insurance Fund
State Council on Developmental Disabilities
State Personnel Board
State Water Resources Control Board
Supreme Court of California
Victim Compensation and Government Claims Board
Wildlife Conservation Board



CALIFORNIA DEPARTMENT OF HUMAN RESOURCES

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Governor Edmund G. Brown Jr.
Secretary, Government Operations Agency Marybel Batjer
Acting Director Richard Gillihan
Acting Chief Deputy Director Pam Manwiller

August 15, 2014

Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814

Re: Response to California State Auditor's Draft Report: *High Risk Update: State Agencies Credited Their Employees With Millions of Dollars' Worth of Unearned Leave*

Dear Ms. Howle:

The California Department of Human Resources ("CalHR") would like to thank you for the opportunity to review the California State Auditor's draft report ("the Report") addressing errors in State agencies' employee leave accounting practices. We also appreciate the suggested remedial actions to help prevent future leave accounting errors.

Last year, CalHR began developing strategies and new guidance designed to address the type of confusion regarding the administration of leave balances under review by the State Auditor. CalHR's new strategies and guidance, which are also responsive to the Report's recommendations, are discussed in further detail below.

The Report's recommendations are broadly summarized as follows:

- CalHR should provide clear criteria for calculating leave for use in the State Controller's Office's monthly exception reports, and work with the State Controller's Office to establish procedures to update such criteria to reflect changes to state law or collective bargaining agreements. The Report suggests that this recommendation be implemented by January 2015.
- CalHR should provide guidance to State agencies on how to properly calculate leave, particularly where an employee works an alternate work week schedule or where an applicable collective bargaining agreement must be interpreted. The Report suggests that this recommendation be implemented by January 2015.

Elaine Howle

August 15, 2014

Page 2

- CalHR should develop guidelines for State agencies to review leave information personnel specialists input into their accounting system. The Report suggests that this recommendation be implemented by January 2015.
- CalHR should work with the State Controller's Office and State departments under CalHR's authority to review erroneous leave transactions identified by the State Auditor and take appropriate corrective action. The Report suggests that this recommendation be implemented by January 2015.

As noted above, last year CalHR began developing strategies and new guidance intended to address the administration of leave balances. To that end, CalHR initiated an internal review of the State's leave policies addressing annual leave, vacation, sick leave, holiday leave and other types of leave provided to State employees. The review includes policies applicable to State employee members of each of the State's 21 bargaining units, as well as those excluded from collective bargaining. CalHR anticipates completing its review by the deadlines set forth in the Report. Once CalHR completes this review, it is our goal to provide guidance on these policies to all State departments through a combination of new policy directives targeting particular areas of confusion, staff training, and direct interaction with affected departments. The instruction will include real-world examples to illustrate the correct application of CalHR's leave accounting policies. Our goal is to provide guidance by January 2015.

CalHR has also undertaken a comprehensive review of its policy on alternate work week schedules. As recommended by the State Auditor, an updated policy will address leave accounting procedures where, due to the employee's alternate work week schedule, an employee works more or less than the required number of hours per month. Our goal is to provide guidance on this issue by January 2015.

CalHR is also developing criteria for generating the State Controller's Office's monthly exceptions reports, and procedures for preventing or correcting errors in employee leave accounts. In addition, CalHR has already reached out to, and now will immediately coordinate with, the State Controller's Office to resolve the errors identified by the State Auditor in the Report. Our goal is to resolve these issues by January 2015.

Finally, CalHR will prepare new guidelines for State agencies to implement to ensure that personnel specialists at individual departments are accurately inputting leave transaction data. Our goal is to develop these guidelines by January 2015.

It is important to note that developing the criteria and guidance referenced above on leave policies is not a task that CalHR can perform in isolation. CalHR is obligated to negotiate or otherwise discuss leave issues with exclusive bargaining representatives for each of the State's 21 bargaining units if they affect employee wages, hours or other terms and conditions that are mandatory subjects of collective bargaining. The obligation arises

Elaine Howle
August 15, 2014
Page 3

under the Ralph C. Dills Act, the statutory scheme governing the State employer-employee collective bargaining process which is enforced by the Public Employment Relations Board. Therefore, while CalHR will endeavor to implement the State Auditor's recommendations within the Report's suggested timelines, it must do so within the strictures of its legal obligations under the Ralph C. Dills Act.

Should you have any further questions or concerns, please feel free to contact me. Thank you.

Sincerely,



Richard Gillihan
Acting Director
California Department of Human Resources

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California Science Center

State Human Resources Department

www.californiasciencecenter.org

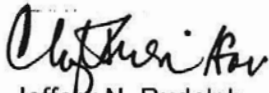
August 15, 2014

Ms. Elaine M. Howle
State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

The Department is in receipt of your August 11, 2014 letter and BSA audit report 2012-603 and agrees with this finding. Furthermore, the Department will seek out training for personnel specialists related to the proper application of collective bargaining contracts related to holiday leave credits and CLAS and continue to work with the CalHR to correct holiday leave balances.

Sincerely,



Jeffery N. Rudolph
President and CEO
California Science Center



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JOHN CHIANG
California State Controller

August 18, 2014

Elaine M Howle, CPA, State Auditor*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Response to Draft

Dear Ms. Howle:

Thank you for the opportunity to respond to the redacted draft copy of your audit report entitled *High Risk – Employee Leave Accounting*. The response is on the attached CD provided with your August 11, 2014 letter, reference number 2012-603.

If you have any questions regarding this matter, please contact me by phone at (916) 327-8299.

Sincerely,

A handwritten signature in cursive script that reads "Tom Yowell".

TOM YOWELL
Acting Chief Administrative Officer

* California State Auditor's comments begin on page 57.

We received the draft report of your audit of the SCO's California Leave Accounting System (CLAS). We appreciate the efforts undertaken by the State Auditor and support many of the recommendations relating to how our office can provide additional tools to assist the 280 state agencies and entities utilizing CLAS to fulfill their duty to post reliable and complete leave data into our system. But, with all due respect, we believe the findings in this report fall short in several critical areas:

ROBUST ROOT CAUSE ANALYSIS OF YOUR FINDINGS IS REQUIRED TO CONFIRM THAT THE ERRORS FOUND ARE INDEED ERRORS, AND TO RELIABLY DETERMINE IF THOSE ERRORS WERE THE RESULT OF SYSTEM SHORTCOMINGS OR FAILURE OF EMPLOYER DEPARTMENTS TO USE THE SYSTEM CORRECTLY.

Repeatedly, throughout your report, you disclose that your analysis "could not account for all the specific circumstances relating to individual transactions because knowledge of these circumstances would require manual review of time sheets. As such, certain transactions we identified as errors in our analysis may not be errors. . ." The SCO has offered and continues to offer our subject matter expertise to forensically analyze each of the found errors to not only validate whether a leave credit was unearned, but importantly, to determine its root cause.

Without this more in-depth review and root cause analysis, conclusions cannot be drawn as to whether the errors were attributable to the lack of automated controls in the system or to the employer agencies entering "dirty" data into the system. For example:

Employee Jane Smith at the Department of Justice (DOJ) is placed on unpaid absence (i.e., dock) and does not work the necessary number of days to qualify for the 8 hours of sick leave that she would normally earn. If DOJ fails to timely input her dock status into the system, CLAS will automatically credit Jane with 8 hours of unearned sick leave.

As demonstrated by this example, the errant 8 hours of sick leave credited to Jane Smith was rooted in the failure of her employer to input data timely as required, not due to a system deficiency.

Again, we continue to offer the resources of our office to complete the important analysis that you have begun. However, until such time as a more complete and in-depth review is completed, your audit report lacks sufficient data for us to concur with many of your conclusions relating to the automated controls in the CLAS system.

WHILE AN "EXCEPTION REPORT" IS A WORTHWILE NEW TOOL TO MAKE AVAILABLE TO EMPLOYER AGENCIES, THEY ARE A REDUNDANCY AND WOULD NOT BE NECESSARY IF ALL STATE AGENCIES TOOK FULL ADVANTAGE OF CURRENTLY-AVAILABLE REPORTS.

In the 1990's, when the leave accounting system was decentralized, individual agencies were given the responsibility and the risk associated with inputting data into the system. To mitigate the risks of "dirty" data corrupting the integrity of the system, the SCO developed both automated and manual controls to help state agencies discharge their responsibility. This included thousands of automated edits and audits, as well as the Leave Activity & Balance (LAB) report. ⑦

LAB reports, furnished to all state agencies participating in CLAS since 1998, provide employers with all the information necessary to identify and correct the errors outlined on Table 4 in your report. The LAB report includes ⑥

- each employee's beginning balance per leave type,
- each adjustment for the period, reflecting leave credits used and earned,
- each ending balance, and
- their number of months of state service.

Let's use the previous example of employee Jane Smith to demonstrate how the LAB report would easily identify the 8 hours of sick leave that was erroneously credited to her. If her employer, the Department of Justice, reviews the LAB report furnished to it on a monthly basis and diligently reconciles it against its own internal records for Jane Smith, it would show that Jane earned 8 hours during a period in which she was on unpaid absence (dock) and, therefore, was prohibited from earning any such credits. Once the error was identified, a correction to CLAS system would be posted by DOJ.

LAB reports are widely-utilized by state agencies to verify the accuracy and completeness of the data inputted into the CLAS system. To ensure that LAB reports are not unwieldy and are user-friendly (especially for large departments or those with multiple facilities throughout the State), employer agencies can either view the electronic report or distribute the hard copy by organizational unit to meet their specific organizational review needs in a meaningful and practical manner. Departments are trained on how to use this report.

Regrettably, your audit report devotes only one sentence to it and its material role in helping state agencies to identify and prevent input errors. ⑧

Of course, there are other state agencies which fail to utilize the resource. This is why we support your recommendation that the SCO "add suspenders on top of the belt" by also producing "exception reports" which separate and highlight select data that can be derived from the existing LAB report as a convenience for employers who may be less careful in their due diligence. As matter of fact, in the "Recommendations" section of this response, we will speak in detail regarding the fact that we began production of exception reports in February 2014, six months ago. ⑥

⑨ **AUTOMATED CONTROLS FOR MANY LEAVE TYPES ARE NOT FEASIBLE**

CLAS contains records for approximately 193,000 employees, is more than 20 years old, yet it is sufficiently robust and flexible enough to allow users to track 46 different leave benefits that are accrued, earned, or used according to applicable rules. It also allows for retroactive adjustments. Out of the 46 unique leave types, the system calculates the accruals for five types based on information contained in the system. There are over 200 audits to ensure accurate accruals. The other leave types cannot be calculated in the system because supporting documentation, such as work schedules and timesheets, necessary to perform accurate calculations for the majority of leave benefits, exists only at agencies.

⑨ For example, only agencies have the supporting documentation to allow the usage of jury duty, bereavement and military leave. These leave types cannot be calculated by the system, nor audits created to ensure accuracy.

THE MAGNITUDE OF THE “ERRORS” NEEDS TO BE PUT INTO PROPER PERSPECTIVE

⑩ As stipulated by your own report, the “errors” found by your audit may be over- or understated. However, accepting at face value the number of errors shown in table 4 of your report, we calculate an overall error rate of .00086 over the five-year period covered by your analysis. In other words, your analysis suggests that the leave accounting process and system is operating at over 99.99% accuracy.

② Note that this error rate does not mean that the errors rest squarely with CLAS. Without the type of in-depth, root-cause analysis discussed earlier in this response, readers of this report cannot discern whether the errors are rooted in a system deficiency or in state agencies failing to use the system correctly. Therefore, the error rate is shared for every entity involved in the process.

Leave Type	Number of Unearned Leave Hours	Total Leave Hours Credited *	Error Rate
Holiday Credit	127,209	21,773,359	.0058
Furlough Leave	26,062	67,463,644	.0004
Sick Leave	15,750	65,357,237	.0002
Personal Holiday	15,120	660,750	.0229
Personal Leave Program 2010	10,434	15,453,203	.0007
Personal Leave Program 2012	1,727	7,590,003	.0002
Annual Leave	388	46,812,674	.000008
Vacation Leave	55	93,806,175	.0000006
Total	196,745	228,410,199	.00086

* Earned Leave is based on a 4-year average (2009-2012) projected over 5 years.

Regardless of the overall error rate of .00086, we mutually agree that the State can and must do more to pursue a zero error rate. While we may not see eye-to-eye with your findings or in the depth and completeness of your audit methodology, we embrace many of the recommendations contained in your report. The following is our response to them:

①

RESPONSE TO RECOMMENDATIONS

To correct the erroneous leave hours we identified in our analysis of the leave accounting system, by January 2015 CalHR should work with the state controller and all state agencies under its authority to review and take the appropriate action to correct the errors.

SCO's Response

We will assist CalHR and the specified agencies in the effort to correct all identified errors. However, as this effort requires agency cooperation, we cannot guarantee that we can meet the January 2015 deadline.

To improve the accuracy of information in the leave accounting system and to ensure that agencies do not improperly credit employees with leave in the future, the state controller should do the following:

- Implement additional controls by June 2015 to prevent the leave accounting system from processing the types of inappropriate transactions we identified in our statewide electronic analysis. For example, it could develop cost-effective controls in the leave accounting system that would prevent employees from receiving annual leave and sick leave during the same period.

SCO's Response

We will explore the possibility of cost effective automated solutions to prevent the leave accounting system from processing inappropriate transactions. In the absence of such system changes, we have already implemented, and will continue to develop and implement exception reports to identify inappropriate transactions, enabling agencies to correct errors promptly.

- Work with CalHR to establish procedures by January 2015 for updating the criteria it uses to produce the monthly exception reports to ensure that the criteria reflect changes in state law and collective bargaining agreements.

SCO's Response

SCO has already started working with CalHR on this issue and we will continue to do so.

- Using criteria provided by CalHR, develop monthly exception reports that identify transactions in the leave accounting system that are inconsistent with the guidelines established in state law and collective bargaining agreements, such as instances in which state employees receive too many personal holidays or too much holiday credit. By June 2015 begin providing each state agency's human resources management with the transactions identified in the exception reports for review and correction as necessary.

SCO's Response

As stated in this audit report, we currently provide monthly reports of excess hours (over the criteria of 100) keyed for compensating time off, excess hours, and holiday credit. Since this was implemented, we have worked with agencies to correct the rare exceptions found. An additional monthly report shows manual adjustments to state service beginning balances. We will create and provide a report showing instances in which state employees receive too many personal holidays by June 2015.

CONCLUSION

In conclusion, while the SCO maintains the system, agencies own the data and are responsible for the completeness and accuracy of that data. And while we strive for a zero error rate, there is no automated system that prevents ALL errors. The tools the SCO has already provided and others that we will explore will only function if the employer agencies are well staffed, well trained, institute proper controls and perform their due diligence by using the tools the SCO provides. Internal controls, whether automated or manual, will always require a human component.

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA STATE CONTROLLERS OFFICE

To provide clarity and perspective we are commenting on the California State Controller's Office (state controller) response to our review. The numbers below correspond to the numbers we have placed in the margin of the state controller's response.

We strongly disagree and stand by our findings and conclusions. As discussed on page 17 and depicted in Table 4 on page 18, our statewide electronic analysis of the California Leave Accounting System (leave accounting system) found that state agencies credited employees with nearly 197,000 hours of unearned leave between January 2008 and December 2012. The value of these erroneous leave hours as of December 2013 was worth nearly \$6.4 million. Further, as stated on page 24, weaknesses in the state controller's leave accounting system contribute to the enormity of the problems we found. Specifically, the leave accounting system lacks sufficient controls to assist state agencies in ensuring that their transactions are complete, accurate, and valid. As we state on page 25, we identified many instances in which state agencies credited their employees with inappropriate amounts of leave and the state controller's automated controls were not able to prevent those errors. We provide some examples of errors that have resulted in significant costs to the State on that same page.

①

The state controller's response attempts to minimize the approach we took to ensure the errors we detected through statewide electronic analysis were actually errors. We confirmed with the state agencies that processed the transactions that many of the errors identified in our analysis were in fact errors. For instance, on pages 25 and 26, we describe four examples where state agencies made keying errors that the leave accounting system's automated and manual controls did not prevent, but we were able to identify when we performed our statewide electronic analysis. Further, because of a system shortcoming, one error recurred monthly for more than 10 years and went undetected until we performed our statewide electronic analysis.

②

The state controller is disingenuous in its response and has taken our report language out of context by failing to quote the entire sentence. Specifically, on page 23, the entire sentence states, "As such, certain transactions we identified as errors in our analysis may not be errors and, conversely, we may have identified some transactions as appropriate when they were in error." Throughout this review as discussed on page 23, we employed a conservative

③

approach to our statewide electronic analysis by comparing actual employee leave accruals to the maximum allowable accruals specified in state law or collective bargaining agreements. Thus, although some of the transactions we identified may not be in error if we reviewed the underlying support, because we took a conservative approach there likely are many other errors that we did not identify as part of our statewide electronic analysis. In fact, to determine the likelihood of additional errors, we reviewed a selection of 115 time sheets at the three agencies we visited and found 14 additional errors not previously detected.

- ④ We commend the state controller for its desire to determine the root cause of these errors and complete this important analysis because, as we recommend on page 31, by January 2015 the California Department of Human Resources should work with the state controller and all state agencies under its authority to review and take the appropriate action to correct the errors.
- ⑤ The state controller is pointing out an obscure example that we would not have identified in our statewide electronic analysis. However, as Table 4 on page 18 shows, using our electronic analysis we identified nearly 16,000 hours of unearned sick leave.
- ⑥ We disagree with the state controller's assertion that the exception report we recommend is redundant to the Leave Activity and Balance (LAB) report. Although the LAB report contains the information state agencies would need to correct an error, it does not effectively present the information in a manner that allows state agencies to quickly and easily identify an error. As we describe on page 26, the state controller's LAB report requires state agencies to review every employee's leave balances and activity to identify errors. However, an exception report would allow state agencies to more quickly and easily identify only those employees' transactions that are at the greatest risk of being inappropriate. In fact, as noted on page 27, the chief of the state controller's Personnel and Payroll Services Division—the division that maintains the leave accounting system—agreed that exception reports could improve the controls of the leave accounting system.
- ⑦ The state controller asserts that it has developed thousands of automated edits and audits; nevertheless, as we present in Table 4 on page 18, these edits and audits were not effective in detecting almost 197,000 hours of unearned leave valued at nearly \$6.4 million as of December 2013.

The state controller is incorrect when it asserts that the LAB report can be used to prevent input errors. Because the LAB report is generated by the state controller subsequent to data entry, it can only be used by state agencies to identify errors after the errors have already occurred. The LAB report cannot prevent input errors.

⑧

As we discuss on page 25, we realize it would not be cost-effective to design automated controls capable of detecting every type of error and agree that a review of the supporting documentation at agencies would be necessary to ensure the accuracy of some leave benefits. However, we would expect the state controller to have automated controls to detect the types of errors we present in Table 4 on page 18, and those that fall outside the typical range for many of the leave types, as we did in our statewide electronic analysis. For example, on page 26 we identified an error through our electronic analysis where Coalinga State Hospital erroneously gave an employee 1,212 hours of holiday credit in December 2012. The state controller could add a control in the leave accounting system that would prompt a user to verify if an entry is correct when the number of hours credited fall outside the range of typical transactions associated with the specific leave benefit such as the holiday credit.

⑨

Again the state controller is attempting to minimize the magnitude of the results of our statewide electronic analysis. Although the errors we identified account for a small percentage of all transactions in the leave accounting system, they still represent nearly \$6.4 million worth of unearned leave and, as we state in comment three beginning on page 57, using our conservative approach, there are likely many more errors that we did not identify as part of our statewide electronic analysis.

⑩

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THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD August 14, 2014

CHANNEL ISLANDS Ms. Elaine M. Howle
CHICO California State Auditor
621 Capitol Mall, Suite 1200
DOMINGUEZ HILLS Sacramento, California 95814

EAST BAY Dear Ms. Howle:

FRESNO The California State University (CSU) welcomes the opportunity to respond to the draft
FULLERTON audit report "High Risk Update: State Agencies Credited Their Employees With Millions
of Dollars' Worth of Unearned Leave." We appreciate the time and effort dedicated by
HUMBOLDT your staff in conducting this audit. Following is our response to the recommendation
made by your office.

LONG BEACH RECOMMENDATION: "To correct the erroneous leave hours we identified
LOS ANGELES in our analysis of the leave accounting system related to the CSU, by
MARCH 2014 the chancellor's office should work with the CSU campuses
MARITIME ACADEMY to review and take appropriate action to correct the errors."

MONTEREY BAY CSU RESPONSE: We concur. Once the detailed list of errors is provided to
NORTHRIDGE us by the State Controller's Office, we will begin working with the affected
campuses to review the errors and take appropriate action to resolve them.

POMONA It should be noted that CSU's ability to recover overpayments is in many
SACRAMENTO instances limited to initiating external collection efforts. The Civil Service
SAN BERNARDINO Code provides statutory authority to recoup overpayments internally. CSU
would benefit by having similar statutory authority to assist in recovering
overpayments or excessive leave accruals.

SAN DIEGO Please do not hesitate to contact me if you have questions.

SAN FRANCISCO Sincerely,

SAN JOSÉ 

SAN LUIS OBISPO Timothy P. White
SAN MARCOS Chancellor

SONOMA TPW/cs
STANISLAUS

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STATE OF CALIFORNIA

EDMUND G. BROWN JR., Governor

DEPARTMENT OF VETERANS AFFAIRS

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August 15, 2014

Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

This is in response to your High Risk Update on State Agencies Crediting Employees with Unearned Leave. Thank you for the opportunity to respond to the draft report detailing your audit of the Department of Veterans Affairs (CalVet) accounting of employee leave.

CalVet recognizes the importance of correctly processing employee leave and commits to the following:

- Review, develop and implement consistent processes for validating employee leave to ensure that leave accounting data is correctly posted in the California Leave Accounting System;
- Provide training to ensure all personnel specialists, including Chula Vista Veterans Home staff, attend leave accounting training provided by the State Controller's Office;
- Provide training to the personnel specialists at the Chula Vista Veterans Home by February 2015 regarding the number of leave hours earned by employees working on holidays that fall on Saturdays;
- Provide training to all personnel specialists relating to bargaining contract interpretation on employee leave entitlements;
- Initiate regular spot audits and run leave accounting exception reports across the Agency;
- Initiate collection efforts on overpayments identified at the Chula Vista Veterans Home relating to working on the March 2012 holiday that fell on a Saturday; and
- Implement mandatory monthly forums for personnel specialists to discuss hot topics, issues, review of current policies and procedures, and bargaining contract language to assist them in being more successful in their jobs.

CalVet appreciates the time and effort of the State Auditor's Office in conducting this review. We accept the overall analysis of the audit and will be working toward implementation of the department-wide recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter J. Gravett", is written over a horizontal line.

PETER J. GRAVETT
Major General (Retired)
Secretary

HONORING CALIFORNIA'S VETERANS