CALIFORNIA DEPARTMENT OF PARKS AND RECREATION

Review Report

PAYROLL REVIEW

July 1, 2009, through June 30, 2012

JOHN CHIANG
California State Controller

December 2012

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California State Controller

December 18, 2012

Major General Anthony Jackson (Ret.), Director
California Department of Parks and Recreation
1416 9th Street
Sacramento, CA 95814

Dear Major General Jackson:

The State Controller's Office reviewed the California Department of Parks and Recreation's (DPR) payroll processes for the period of July 1, 2009, through June 30, 2012. Our review identified the following internal control weaknesses and/or violations of DPR and State policies that create a risk of abuse, fraud, and overpayments to employees for out-of-class (OOC) assignment pay:

- DPR management circumvented internal controls for authorizing OOC assignments pay
- DPR lacked proper supporting documentation for OOC assignments
- OOC assignment periods exceeded limits set by bargaining unit agreements and State regulations, resulting in overpayments to employees
- The DPR did not wait 91 days before paying managers OOC compensation
- OOC pay was not adjusted for employees receiving Non-industrial Disability Insurance
- OOC payment calculations were not properly calculated or documented

We also identified the following additional violations of DPR and State policies and procedures that resulted in inappropriate amounts paid to DPR employees:

- Personal Leave Program (PLP) hours were inappropriately given to individuals on Non-industrial Disability Leave Status
- Retired Annuitants, Temporary Appointment Intermittent Employees, and Permanent Intermittent Employees exceeded the maximum number of hours per year allowed by CalPERS and the Personnel Management Policy and Procedures Manual

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

Attachment

cc: Janelle Beland, Undersecretary
California Natural Resources Agency
Patrick Kemp, Assistant Secretary of Administration and Finance
California Natural Resources Agency
Aaron Robertson, Deputy Director, Administration
California Department of Parks and Recreation
Arthur Lee, Chief of Audits
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Summary

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Background

On July 15, 2012, the *Sacramento Bee* newspaper (*Bee*) reported that a high-ranking official at the DPR carried out a secret vacation buy-back program during 2011 for himself and other headquarters staff. The *Bee* reported that the buy-backs cost more than $271,264 and that the DPR participated in additional unauthorized vacation buy-backs in 2004, 2005, and 2008. The internal auditors and the California Attorney General's (AG) Office conducted investigations of the leave buy-back program. We reviewed the DPR internal audit workpapers and the AG Office's report of the buy-back investigations as part of our planning for this audit. We did not believe it was necessary to conduct substantial audit work to reinvestigate the leave buy-back program because it appears that the work performed by the internal auditor and the AG's

Office was sufficient to uncover and report the buy-back program to the public. Additionally, we did not want to interfere with any ongoing investigation, and it was unclear at the time of our fieldwork whether the AG's office officially had closed its investigation of the leave buy-back program.

Immediately after the *Bee* article, the SCO determined how the buy-back transactions were entered into the State's payroll system. The SCO discovered that two DPR managers keyed in the majority of the buy-back transactions, and that these managers should not have been allowed keying input access to the system due to their management status. According to the State's Decentralized Security Guidelines, managers are granted keying access only upon written justification from the SCO and under limited circumstances for a limited period of time. The SCO already had terminated input access for the two managers on March 15, 2012, approximately four months before the *Bee* broke the story about the leave buy-backs. As a result of the circumstances surrounding the leave buy-back program and the security protocol violations, the SCO believed it was necessary to perform this review.

Review Authority

Authority for this review is provided by the California Constitution, Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the State. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The objectives of the review were to determine whether the DPR has internal controls in place to ensure that:

- Established policies and procedures exist for initiating and processing payroll transactions
- Adequate separation of duties exist over the payroll functions
- Payroll transactions are properly approved and certified by authorized personnel
- Payroll records, files, programs, and other data are safeguarded adequately
- State laws, policies, and procedures are followed regarding payroll transactions
- Salary advances are properly administered and recorded in accordance with State law.

Based on circumstances surrounding the leave buy-back program and internal control weaknesses identified during our review that indicate a risk of abuse and fraud, we expanded the review scope to include identification of additional abusive and/or fraudulent payroll transactions.

To accomplish the review objectives, we performed the following procedures:

- Reviewed the DPR's policies and procedures for processing payroll transactions
- Reviewed payroll functions to determine if adequate separation of duties exists among employees
- Interviewed DPR employees and reviewed supporting payroll documentation to gain an understanding of the DPR's approval processes for payroll transactions
- Interviewed DPR employees, reviewed supporting payroll documentation, and performed a walk-through of the payroll function to gain an understanding of internal controls
- Conducted a review of the leave buy-back transactions to identify additional individuals who were part of the leave buy-back program but were not reported by the DPR's internal auditors or the Attorney General's Office
- Conducted a review of the leave buy-back transactions to determine if the DPR correctly reduced the leave balances of the participating individuals
- Reviewed the DPR's California Leave Accounting System (CLAS) to identify abnormal leave balances, and performed testing to verify the accuracy of such balances
- Tested various leave accruals (annual leave, vacation, sick leave, holiday credits, etc.) to determine if leave accruals and leave usage were supported by properly authorized timesheets
- Tested overtime paid to determine if such pay was properly supported by signed timesheets
- Queried the payroll register to identify overtime paid to managers in the E and SE Work Week Groups, and reviewed the timesheets/supporting authorizations to determine if the overtime paid violated State law
- Performed testing of OOC pay assignments to determine if the pay was properly supported, properly authorized, correctly calculated, and in accordance with State law, DPR policies, and collective bargaining contracts
- Performed testing of various differential, supplemental, and premium pay types (uniform allowances, recruitment and retention, arduous pay, etc.) to determine if the pay was properly supported, properly authorized, correctly calculated, and in accordance with State law
- Reviewed payroll transactions to identify potentially fraudulent/abusive transactions for all employees who have access to payroll system, who received leave buy-back payments, and who

were classified as management. This review included only CLAS accruals/usage and special pay types. The review did not include hiring and promotional appointments

- Reviewed the DPR's outstanding salary advances to determine if the advances were reasonable

- Conducted employee interviews to identify additional fraudulent/ abusive activities

Conclusion

On July 15, 2012, the *Sacramento Bee* newspaper reported that a high-ranking official at the DPR carried out a secret vacation buy-back program during 2011 for himself and other headquarter staff. As a result of the circumstances surrounding the leave buy-back program and security protocol violations already identified by the SCO (Finding 2), we determined that it was necessary to perform this review. Our review identified internal control weaknesses that create a risk of abuse and fraud involving OOC assignment pay (Finding 1). We also identified payroll practices that were not in accordance with DPR and State policies and procedures that resulted in overpayments to state employees (Findings 3 and 4).

Our review revealed that the DPR has sufficient policies and procedures in place for day-to-day accounting of employee time and leave. Our testing of employee timesheets and leave accruals did not reveal any material errors; hours worked and leave accruals were adequately supported by properly authorized employee timesheets. However, similar to the leave buy-back program, we identified potentially abusive practices and internal control weaknesses involving OOC pay assignments. As with the leave buy-back program, the problems with out-of-class assignments resulted from management overriding controls, lack of proper support documentation, and management not following State personnel and payroll procedures. A summary of findings related to OOC assignment pay includes the following:

- DPR management circumvented internal controls for authorizing out-of-class assignments pay

- DPR lacked proper supporting documentation for OOC

- OOC assignment periods exceeded limits set by bargaining unit agreements and State regulations, resulting in overpayments to employees

- The DPR did not wait 91 days before paying managers OOC compensation

- OOC pay was not adjusted for employees receiving Non-industrial Disability Insurance

- OOC payment calculations were not properly calculated or documented

A summary of other payroll practices that are not in accordance with DPR and State policies and procedures are as follows:

- PLP hours were inappropriately given to individuals on NDI Status (Finding 3)
- Retired Annuitants, Temporary Appointment Intermittent Employees, and Permanent Intermittent Employees exceeded the maximum number of hours per year allowed by CalPERS and the Personnel Management Policy and Procedures Manual (Finding 4)

The review scope and objectives did not include determining whether employees were hired and promoted in accordance with State policies and procedures. Also, we did not review the DPR's examination process.

<u>Follow-up on vacation leave buy-back</u>

We reviewed employee leave accounting records to ensure that the DPR had appropriately reduced leave balances in proportion to the number of hours for which employees received cash payments. Our review concluded that leave balances were correctly reduced. We also conducted a search for additional leave buy-back programs occurring at the DPR during our audit period. We did not uncover any additional leave buy-back programs during our audit period. However, the DPR internal auditor's workpapers indicated that other leave buy-back programs did occur at the DPR in 2004, 2005, and 2008. We did not review these prior leave buy-backs because they occurred before our audit scope period and because they occurred so long ago that the DPR no longer is required to maintain supporting documentation for them.

During our search for additional leave buy-backs, we discovered that three employees received compensation for vacation leave. The three individuals, however, were missing from the listing of leave buy-back participants reported in the DPR internal audit and the AG Office's report. We believe that it is possible that the three individuals were part of the leave buy-back program because they received their payments during the same time period as the secret leave buy-back. DPR management did not confirm with us whether or not these three individuals were part of the leave buy-back program. It is possible that the three individuals were not part of the leave buy-back program and received their leave buy-backs in error, or as part of a separate incident. Manual Lopez was the Deputy Director of the Administrative Services Division (ASD) at DPR who, according to the AG's report, was the highest-ranking official at DPR who approved the leave buy-back. According to the AG's report, Mr. Lopez claimed that the leave buy-back program was initiated because he wanted to reduce the fiscal year 2010-11 surplus budget of the ASD. The AG's Office reported that of the 55 employees who participated in the leave buy-back, one employee did not work in the ASD, and that this seems to contradict Mr. Lopez's reasoning behind the leave. If the three additional employees identified were part of the leave buy-back program, their participation further contradicts Mr. Lopez's statements because the three employees also did not work in the ASD.

Views of Responsible Officials

We issued a draft review report dated November 21, 2012. Aaron Robertson, Chief Deputy Director, responded by letter dated November 30, 2012 (Attachment A), agreeing in part to the results of the review. The SCO included comments (Attachment B) on the DPR's disagreement with Findings 2 and 3.

Restricted Use

This report is solely for the information and use of the California Department of Parks and Recreation and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

December 18, 2012

Findings and Recommendations

FINDING 1— Weaknesses in internal and accounting controls for out-of-class pay assignment, and violations of DPR and State policies

<u>Department of Parks and Recreation (DPR) management circumvented internal controls for authorizing out-of-class pay assignments</u>

According to the DPR Administrative Manual, all out-of-class (OOC) pay assignments should be submitted and approved by the DPR's Classification and Pay Unit. The Classification and Pay Unit maintains a listing of all OOC assignments approved by the unit. We compared the Classification and Pay Unit's listing to the payroll register and identified 73 individuals who were missing from the Classification and Pay Unit's listing. Upon review, we determined that DPR management did not submit the OOC assignments to the Classification and Pay Unit for review and approval. DPR management circumvented the Classification and Pay Unit by submitting the OOC assignment approvals directly to the Transactions Unit for entry into the State's payroll system.

Classification and Pay Unit staff explained that DPR management may have begun to circumvent this control because the Classification and Pay Unit staff began denying DPR management's requests for approval for some OOC assignments. Classification and Pay Unit staff informed us that approvals were denied because they did not believe that the assignments were properly justified and/or were inconsistent with DPR and/or State policy. We attempted to verify this claim by selecting a sample of 17 employees who were not on the listing. For 15 of the 17 employees sampled, there was not enough information in the files to determine whether the OOC pay was properly justified. Two of the 17 employee files had no supporting documentation of any kind, 11 of the 17 had no written justification for the OOC assignment, and 2 of the 17 had a duty statement as the only supporting documentation.

The DPR's Administrative Manual (September 2005), section 0210.41. states:

> Department policy requires the following procedures are followed when assigning Out-of-Class duties:
>
> - All requests to work a represented employee Out-of-Class must be approved in advance by the District Superintendent/Division Chief and the appropriate Classification and Pay Analyst.
> - Requests and justifications to work an employee Out-of-Class shall be submitted in memorandum format with attached justification and duty statement.
> - The justification shall include the programmatic reason for the requested Out-of-Class assignment, the period of the Out-of-Class assignment, name of the employee recommended for the assignment, and a statement concerning why an Out-of-Class assignment is requested instead of a limited-term appointment or other alternative.
> - The District/Division will forward the approved request to the Personnel Services Division.

- After review, the Classification and Pay Analyst will notify the originating office that the request has been either approved or denied.

Lack of proper supporting documentation for OOC assignments

For the period of July 1, 2009, through June 30, 2012, the DPR had 203 individuals who received out-of-class (OOC) compensation, totaling approximately $520,000. We selected a sample of 79 OOC assignment files for review and found that 49% of the time (39 of 79 sampled) there was not enough information in the files for an approving official to make a knowledgeable decision. Of the 39 files with insufficient documentation, five had no approval documentation that could be located. Twenty-two of 79 assignments had partial documentation, with 19 having only a duty statement and no written justification, and three had only written justification and no duty statement. Additionally, 34 of 79 (43%) files sampled had assignment approvals and/or assignment extensions that were not approved in advance of the start date.

Good internal control practices require adequate supporting documentation to allow an approving official to make a knowledgeable, informed decision as to whether to approve the OOC assignment. Good internal control practices are included in the DPR's rules regarding OOC assignments; however, the DPR failed to follow these rules consistently.

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> - The District/Division will forward the approved request to the Personnel Services Division.
> - After review, the Classification and Pay Analyst will notify the originating office that the request has been either approved or denied.

<u>OOC assignment periods exceeded limits set by bargaining unit agreements and State regulations, resulting in overpayments to employees</u>

We performed various tests to determine whether employees received OOC pay in excess of the number of days allowed by their collective bargaining unit agreements or State policy. Our testing identified the following violations:

- For employees who are in bargaining units that restrict OOC pay to 120 days within 12 consecutive months, 17 out of the 79 (23%) individuals exceeded the 120-day limit. Of the 17 who exceeded 120 days, four of the individuals exceeded one year. The total estimate of the payments for OOC exceeding 120 days is $38,900. In some cases, employees were performing back-to-back OOC assignments, but the nature of the assignments appears to be inappropriate. For example, one employee would start out in one OOC assignment for 120 days, then move to another OOC assignment for an additional 120 days, and then move back into the original OOC assignment.

- 20 of 129 (15.5%) employees received OOC compensation in excess of 365 days, amounting to approximately $46,000. The longest period of OOC pay received by an employee was 27 months.

Within the DPR files, we found correspondence documentation for three individuals in which DPR management was informed that exceeding 365 days for an OOC assignment violated State policy, but management continued to approve the OOC assignment.

California Department of Personnel Administration Personnel Management Liaisons (PML) Memorandum #2007-026, gives departments delegated authority to approve OOC assignments for excluded employees for up to one year. The memorandum instructs departments to refer to the bargaining unit contracts for represented employees.

California State Civil Service Pay Scales Manual, section 14, Pay Differential 101, states that excluded employees "shall not be assigned nor receive out-of-class compensation for more than one year."

Bargaining Unit 07 Contract, Article 15.2 states in part "…no employee may be compensated for more than one (1) year of out-of-class work…"

The following bargaining unit contracts restrict represented employees to no more than 120 days of out-of-class work within 12 consecutive months:

- Bargaining Unit 01 Contract, Article 14.2
- Bargaining Unit 02 Contract, Article 15.3
- Bargaining Unit 04 Contract, Article 14.2
- Bargaining Unit 10 Contract, Article 17.2
- Bargaining Unit 15 Contract, Article 14.2

The DPR did not wait 91 days before paying managers OOC compensation

Of the 203 individuals who received OOC compensation, eight individuals were appointed to managerial classifications. We conducted a test to determine if compensation was received prior to the 91st day of assignment. Four individuals received OOC compensation prior to the 91st day of the start date of the OOC assignment. Three individuals did not have any approval documentation on file; therefore, we could not determine if the employees received compensation prior to the 91st day.

California State Civil Service Pay Scales Manual, section 14, Pay Differential 101, states, "Managerial out-of-class compensation will commence on the 91st day. Compensation shall not exceed nine months."

OOC pay was not adjusted for employees receiving NDI

Employees receiving Non-industrial Disability Insurance (NDI) are allowed to receive pay supplements while not working due to non-work-related illness or injury. An employee should not receive OOC assignment pay while on NDI. Using the payroll data, we conducted a search to identify individuals who received OOC compensation while also receiving payments for NDI. The search revealed that three such individuals received both payments. An analysis of the payments showed that two of the three individuals were receiving the full amount of OOC compensation in pay periods for which they had not earned the full amount of regular pay. One individual received one full OOC payment when working less than full-time and one OOC underpayment. One individual received two full OOC payments when working less than full-time and received an OOC payment in a pay period for which the individual earned no regular pay. The total amount of the overpayments for the two individuals was $477.

OOC compensation is calculated by multiplying the OOC rate by the number of days or hours worked. If the individual works a full month during an OOC assignment, that individual is entitled to the full difference between the pay received from his or her appointed class and the amount he or she would be issued if appointed to the classification of his or her OOC assignment.

While on NDI, an individual would not work full-time and, therefore, should not receive the full OOC payment for the pay period. In addition, an individual who has received no regular pay cannot be issued OOC pay.

California State Civil Service Pay Scales Manual, section 14 provides that OOC pay will not be used to calculate NDI. The rule applies to all bargaining units and excluded employees.

OOC payment calculations were not properly calculated or documented

We selected a sample of 25 of the 203 employees who received OOC pay during the audit period to determine whether the amount of OOC pay was calculated correctly. Of the 25 individuals selected, we reviewed 100% of each employee's monthly OOC transactions, totaling 267 individual monthly transactions. Our testing concluded that the DPR consistently is not calculating OOC pay correctly and is not maintaining documentation of the OOC payment calculation. The majority of calculation errors occurred because the DPR failed to properly adjust the OOC pay due to State employee PLP days (furloughs). Other calculation errors occurred because of changes to the various bargaining unit agreements regarding furlough days and merit salary adjustments that were keyed late. For some of the calculation errors, we could not determine why the error occurred because the calculation was incomprehensible.

- 82 of 267 transactions sampled (30.7%) did not have a transaction file; therefore, there was no supporting STD. 671 form or other documentation to support the OOC payment calculation.

- 62 of 185 transactions sampled that did have supporting documentation (33.2%) had variances greater than +/- $5.20. Of 62 transactions, 9 were underpayments totaling $217 and 53 were overpayments totaling $3,616. One payment for $2,400 was entered into the system as OOC pay, but actually was $2,400 for recruitment and retention pay.

- One payment was applied to the wrong pay period, giving the appearance that an individual was paid twice in one month.

The rate of compensation for represented employees is specified in each bargaining unit contract. Each bargaining unit contract generally provides that the employee shall receive the rate of pay he or she would have received pursuant to Title 2, *California Code of Regulations,* section 599.673, 599.674, or 599.676, if appointed to the higher classification.

The SCO's *Payroll Procedures Manual* (PPM) section G 831, under the Payroll Input Process (PIP), instructs PIP users to document out-of-class payments on a STD.672 or STD.671 form when transactions are keyed into the PIP. The PPM states that "Out-of-Class Assignment Pay is documented on a Time and Attendance (T/A) Form 672 or Miscellaneous (Misc.) STD. 671 and keyed via PIP."

Recommendation

The DPR management practice of circumventing the approvals of OOC pay, the lack of proper supporting documentation, and management's failure to follow State policies presents a serious risk of abuse or fraud. Additionally, due to the lack of supporting documentation, we could not determine whether many employees were receiving OOC pay that they were not lawfully entitled to receive. As a result, we strongly recommend that the DPR conduct a review of all current OOC assignments to ensure that the assignments are in accordance with State law, bargaining unit agreements, and DPR policies. Additionally, the DPR should implement the following policies and procedures:

- Before the OOC assignment transaction is given to the Transactions Unit, the Classification and Pay Unit should ensure that the transaction is properly documented. The documentation should include a written explanation justifying the necessity and appropriateness of the assignment and explaining why alternative administrative solutions would not be sufficient. The documentation also should include a current and proposed duty statement and an organization chart indicating the employee's current position and the position of the proposed assignment.

- All of the OOC assignments should be forwarded to the Classification and Pay Unit for approval. The Transactions Unit should ensure that all of the proper approvals are obtained before entering assignments into the payroll system. Approvals should occur before the assignment start date.

- The Classification and Pay Unit should review bargaining unit contracts before approval of the OOC assignment to ensure that compensation is not paid beyond the end of an assignment period and/or so that compensation does not exceed 120 days within 12 consecutive months, or 365 days depending on the employee's classification.

- The justification documentation and/or approval sheet should include language stating that approval for managers to receive OOC occurs only after the manager already has worked OOC for 90 days.

- The Transactions Unit should provide training to staff to ensure that they are aware that OOC pay should be adjusted for employees on NDI.

- The Transactions Unit managers or supervisors should provide tools and training to staff to ensure that payment calculations are calculated correctly. Additionally, the calculation should be adequately documented using a STD. 671 form and a legible calculation sheet.

- The DPR's Internal Audit Unit should conduct regular reviews of OOC assignments to determine whether the assignments are in accordance with State law, bargaining unit agreements, and DPR policies.

- The DPR should seek reimbursement from employees who received OOC payments to which they were not lawfully entitled.

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

The SCO maintains the State's personnel and payroll information system. The system is decentralized, thereby allowing employees of State agencies to access the system. The SCO's Personnel/Payroll Services Division (PPSD) has established a Decentralization Security Program that all State agencies are required to follow in order to access the computer systems. The program's objectives are to secure and protect the confidentiality and integrity of the data against misuse, abuse, and unauthorized use. The Decentralized Security Program requires each agency to have proper segregation of duties for granting access to the system and reporting variances from established procedures. To segregate duties, the program requires each agency to select individuals to be the Authorizing Official/Manager and the Security Monitor.

The SCO also allows input access by Personnel Services Supervisors.

The SCO's Decentralization Security Program Access Requirements Section also states:

> The privilege to access the PPSD database poses a significant risk to the ability for SCO to function. Therefore privilege is restricted to persons with a demonstrated need for such access. Currently, . . . applications are restricted to Personnel Services Specialists, and the Payroll Technician classification because their need is by definition a function of their specific job duties, and any change in those duties requires a reevaluation of the need for access. If the employee's duties change, such that the need for access no longer exists, the access privilege MUST be removed or deleted immediately by a request submitted by the department….A request for an individual in a classification other than in the PSS/PST series to access (the payroll system) requires a written justification from the Personnel/Payroll Officer. The justification must describe the individual's specific job duties that require the need to each type of information…as well as the level of access to that application, in order to perform their Statutory and/or Constitutional duties.

During the time that the leave buy-backs occurred, the DPR's two payroll transaction managers had input access to the State payroll system. One of the managers keyed in leave buy-back transactions. Also, the assistant personnel officer had input access to the system and keyed in some of the buy-back transactions. According to the SCO's Decentralized Security Program, none of these three individuals should have had input access to the payroll system because managers only are allowed input access to the system for only a limited period of time and only if proper written justification for such access is received and approved by the SCO. The three individuals originally were provided access to the payroll system before becoming managers. Their access to the system remained because the Security Monitor did not discontinue their access after they became managers. We also identified an additional employee who had inappropriate access to the PPSD system because access was not properly revoked after the employee left the Payroll Transactions Unit for a position in the Risk Management Unit.

Allowing payroll transaction managers and the assistant personnel officer input access to the system presents a serious violation of the Decentralized Security Program. At the DPR, the payroll manager and the assistant personnel officer are the approving officials who often approve certain payroll transactions prior to input into the system. They also are responsible for reviewing the work of their staff. To properly segregate duties, employees charged with approving transactions should not be able to input the transactions that they approve. It is for this reason that the Decentralized Security Program limits input access for personnel/payroll managers.

<u>Recommendation</u>

The DPR should ensure that input access to the payroll system is updated after employees are promoted or change job classifications. DPR's designated Security Monitor should periodically review access to the system to determine that access is in accordance with the Decentralized Security Program.

FINDING 3— Personal Leave Program (furlough) hours were inappropriately given to individuals on Non-industrial Disability Leave status

In 2010, collective bargaining agreements were reached between the DPA and various State employee bargaining units that require State employees to take approximately 5% less pay in exchange for 8 hours of PLP/furlough credits per month. The agreements were for the purpose of saving the State salary expenses due to the State's budget crisis.

We identified all of the employees receiving NDI benefits during the PLP 2010 period of September 2010 through March 2012. The total number of employees receiving NDI benefits during this period was 39. Of the 39 employees, 28 received 8 hours of PLP credits during the months for which they received NDI benefits. The DPR made no adjustments to reduce the PLP credits earned either in total or pro rata for PLP 2010 earned while receiving NDI benefits. Twenty-three of the 39 employees had a total of 45 months in which the employee was on NDI for the entire month but continued to inappropriately earn a total of 360 hours (8 hours × 45 months) of PLP, representing an estimated cost to the State of $9,500. Eighteen of the 39 employees were on NDI for only part of the month and received 8 hours of PLP on a pro rata basis, representing a total of 176 hours, with an estimated cost to the State of $4,800.

Department of Personnel Administration Personnel Management Liaisons (PML) Memorandum 2011-013 states, "Employees on NDI, ENDI, IDL, EIDL, or Worker's Compensation for the entire monthly pay period are excluded from the PLP 2010 for that pay period. Employees off for partial months shall receive PLP 2010 credits based on the intermittent chart…" PML 2011-13 applies only to excluded, exempt, and statutory employees; however, PML memorandums 2011-014 and 2011-015 have similar provision applicable to the other collective bargaining units.

<u>Recommendation</u>

The DPR should provide training to ensure that payroll specialists are aware that PLP must be adjusted if employees are on NDI. Payroll supervisors and managers also should review transactions to ensure that the adjustments are made correctly.

The DPR should correct all prior entries to remove PLP from employee leave balance accounts that were inappropriately earned because the employee was on NDI.

FINDING 4— Retired annuitants, temporary appointment intermittent employees, and permanent intermittent employees exceeded the maximum number of hours per year allowed by CalPERS and the Personnel Management Policy and Procedures Manual

We analyzed payroll data to identify temporary appointment intermittent employees, permanent intermittent employees, and retired annuitants who exceeded the maximum number hours they were allowed to work per year according to State policy.

We reviewed 19 temporary intermittent employees working at the DPR during our review period. Eight of the 19 (42%) employees sampled exceeded the limit of 1,500 hours per year. The total cost of the extra work by the 8 individuals was $11,272.

We reviewed 16 permanent intermittent employees working at DPR during our review period. Two of the 16 (12.5%) employees exceeded the 1,500 hours per year, but had proper extension requests to work more than 1,500 hours. However, both employees exceeded the number of hours approved in their extension requests. The total cost of the hours exceeding the extension requests was $548.

Our analysis revealed that only 8 of 340 (2.3%) retired annuitants working at the DPR during our review period exceeded the limit of 960 work hours per fiscal year. The total cost of the extra time was $5,810. Although our analysis noted a few discrepancies, errors were expected due to the nature of the retired annuitants' time reporting. It is expected that some retired annuitants will work beyond the 960 hours before the payroll department can detect the overage because the hours worked are reported to the payroll department after the retired annuitant already has worked the hours.

Personnel Management Policy and Procedures Manual, Section Number 333, subsection Standards and Guidelines, #3 Temporary (TAU) Appointments to Intermittent Positions states:

> If an employee is appointed to an intermittent time base position on a temporary (TAU) basis, there are two controlling time limitations which must be considered. One is the constitutional limit of nine months in any 12 consecutive months for temporary appointments which cannot be extended for any reason. The other is a 1,500-hour limitation on the intermittent time base.

Personnel Management Policy and Procedures Manual, Section Number 333, subsection Standards and Guidelines, #5 Exceeding the 1500-Hour Limitation states:

> There are occasions when unexpected, temporary changes in workload require use of an intermittent employee for more than 1,500 hours…Therefore, effective with the issuance of this Manual Section, all departments are delegated authority to approve extension of the 1,500-hour time limit subject to postaudit. Departments must keep adequate documentation for the reasons the limit was exceeded.

Government Code section 21224(a) states, "A retired annuitant appointed pursuant to this section shall not work more than 960 hours each fiscal year regardless of whether he or she works for one or more employers."

Recommendation

The DPR's Payroll Transaction Unit sends alerts to district offices each month informing them of employees who are close to exceeding the maximum number of hours per year. We recommend that the alert be forwarded via mail or electronically directly to the employee and the employee's manager; doing so will circumvent any problems with the district office failing to forward the notice.

Attachment A— California Department of Parks and Recreation's Response to Draft Review Report

State of California • Natural Resources Agency
DEPARTMENT OF PARKS AND RECREATION
P.O. Box 942896 • Sacramento, CA 94296-0001
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Edmund G. Brown Jr., *Governor*
Major General Anthony L. Jackson, USMC (Ret), *Director*

November 30, 2012

Andrew Finlayson
Chief, State Agency Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

RE: Department of Parks and Recreation Response to State Controller's Office Audit

Dear Mr. Finlayson:

In response to the November 21, 2012 letter from the State Controller's Office (SCO) regarding the audit of payroll processes (conducted for the period of July 1, 2009 through June 30, 2012), we provide the following information. In general, we acknowledge and it is widely known that some very unfortunate events occurred at the Department of Parks and Recreation, in particular with the mismanagement of payroll systems and data. We take very seriously SCO's audit findings and are using them to continue to improve and safeguard our payroll systems.

We are happy to report (and it is duly noted below) that many of the improvements and safeguards have already been implemented. In addition, the Department of Parks and Recreation has in place an entirely new executive management team that will work diligently to earn back our fellow state agencies' trust, and that of the people of the State of California.

FINDING 1—
Weaknesses in internal and accounting controls for out-of-class (OOC) pay assignment, and violations of Department of Parks and Recreation (DPR) and State policies:

- **DPR management circumvented internal controls for authorizing out-of-class pay assignments;**
- **lack of proper supporting documentation for OOC;**

- **OOC assignment periods exceeded limits set by bargaining unit agreements and State regulations resulting in overpayments to employees;**
- **DPR did not wait 91 days before paying managers OOC compensation; and**
- **OOC pay was not adjusted for employees receiving Non-Industrial Disability Insurance.**

We agree that OOC assignments were not always previously appropriately implemented, as indicated in SCO Finding 1.

Recommendation

A majority of the SCO recommendations were implemented prior to completion of the audit. In accordance with policy, all OOC assignments must be reviewed and approved by staff in the Classification and Pay (C&P) Unit. The C&P Unit follows a newly updated OOC Procedural Guide that includes several control measures. The C&P OOC review process includes the following:

- Bargaining Unit Contract review to ensure OOC time limits are not exceeded
- Review of current and proposed duty statements, as applicable
- Review of current and proposed organizational charts, as applicable
- Justification memorandum included
- Supplemental Questionnaire included (that provides a plan once the OOC has expired)
- OOC log update and review
- Approval by Budget's Chief, appropriate Division Chief, C&P Manager, and Admin Division Chief
- OOC effective date only authorized once all approvals are obtained
- Transactions notification flag has been added on authorized OOC for managerial employees that provides the date (i.e., 91st day) when compensation may begin.

These changes have been recommended by SCO and will be implemented, as follows:

- The Transactions Unit staff will receive additional training to ensure they clearly understand that OOC pay must be adjusted for employees who are off work on a form of disability leave. The OOC Worksheet will be updated to include a checkbox to require verification to determine whether or not the employee is on any type of disability leave. Also, a new procedure in place provides notification to the transactions specialist, the disability specialist, and timekeeper when an employee has applied for or has been approved for disability leave. This will be completed by December 31, 2012.

- The Transactions Unit staff will provide an OOC calculation worksheet to staff to ensure that payment calculations are made correctly. A new procedure has been implemented that requires supervisory approval of all OOC pay calculations and the OOC will not be approved and keyed without the appropriate STD. 671 form and a legible calculation sheet attached.

- DPR Executive management will work with the Audit Unit to establish a regular audit review period to determine whether the OOC assignments are being made in accordance with State law, bargaining unit agreements, and DPR policies. The first audits will be implemented during 2013.

- DPR will seek reimbursement from employees who received OOC payments to which they were not lawfully entitled. The review and establishment of the accounts receivables will be completed within 60 days of the notification of impacted employees.

A review of the OOC compensation received by employees indicates they did work in OOC assignments and were entitled to receive differential pay, in spite of appropriate procedures not always being followed.

Additionally, those on the management team responsible for circumventing our OOC approval process have been replaced or are no longer employed by the Department. DPR will also implement an OOC Checklist that will be signed off by all levels (i.e., Budget Chief, appropriate Division Chief, C&P Manager, and Admin Division Chief). The Transactions Unit will be provided training that OOC pay may not be keyed without an OOC Checklist containing ALL required signatures. The new OOC Checklist will be implemented by December 31, 2012.

In order to ensure that notification is given to an employee on an OOC assignment and appropriate management when an OOC assignment is ending, the C&P Unit will send out a monthly communication to the respective Administrative Officer where an OOC assignment is being worked. The communication will include the employee's name, current classification, OOC assignment classification, request for confirmation that the employee is still working the OOC, and the authorized OOC end date. Once the confirmation from the Administrative Officer is received, the C&P Unit will forward a copy to the Transactions Unit for the employee's OOC pay file. This process will be implemented by December 31, 2012.

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

We agree that there were employees with input access to the State's payroll system, as indicated in SCO Finding 2.

Recommendation

DPR will ensure that input access to the payroll system is updated after employees are promoted or change job classifications. DPR's designated Security Monitor should periodically review access to the system to determine that access is in accordance with the Decentralized Security Program. Additionally, the Personnel Officer has been added as reviewer of the SCO Decentralized Security Access authorization to ensure compliance with the Decentralized Security Program.

While there were employees identified by this audit as having access to the State's payroll system, as indicated in SCO Finding 2, we disagree that all identified individual's access was inappropriate. The Transactions Managers need additional access to assist with the MyCALPAYS training and transition, which at the time of approval, was to be through November 30, 2012. While access is not intended to key the leave buyback it is needed to fulfill the additional workload created by the system conversion. The MyCALPAYS Wave 3 transition period has now been extended until at least June 30, 2013. Therefore, we intend to request an extension through this date for the Transactions Manager's current SCO input access to complete MyCALPAYS-related activities. Other individuals' SCO security access privileges have been updated to comply with the Decentralized Security Program.

FINDING 3—
Personal Leave Program hours were inappropriately given to individuals on Non-industrial Disability Leave status

We disagree that the Personal Leave Program (PLP) hours were inappropriately given to individuals on Non-industrial Disability Insurance (NDI) Leave as indicated in SCO Finding 3. As per SCO Personnel Letter #11-015, Section VII – Disability Leave, the Personal Leave Program Earnings Identifier is to remain on the record of employees with an "SPC transaction" code. The SPC transaction code is used when an employee remains on payroll status. We are going to obtain clarification from the SCO Disability Unit to determine if there is another process that is to be followed when an employee remains on payroll during a disability period. If it is determined that we are to provide additional processing for SPC transactions, these will be completed within 60 days of notification from the SCO Disability Unit.

Recommendation

If it is determined that additional processing is required for SPC transactions, the DPR will provide training to ensure that payroll specialists are aware that PLP must be adjusted if employees are on NDI. Payroll supervisors and managers will also review transactions to ensure that the adjustments are made correctly.

If needed, DPR will correct all prior entries to remove PLP from employee leave balance accounts that were inappropriately earned because the employee was on NDI. If the clarification from the SCO Disability Unit indicates additional NDI – SPC processing, we will implement a checklist for the Personnel transactions staff responsible for keying NDI.

This will ensure that the employee's leave balances are updated to remove any PLP hours earned during a period while the employee was on NDI for the entire month. At this time, we will request a listing from SCO of the identified employees. Any needed corrections will be completed within 60 days of the receipt of the clarification from the SCO Disability Unit.

FINDING 4—
Retired annuitants, temporary appointment intermittent employees, and permanent intermittent employees exceeded the maximum number of hours per year allowed by CalPERS and the Personnel Management Policy and Procedures Manual.

We agree that retired annuitants, temporary appointment intermittent employees, and permanent intermittent employees exceeded the maximum number of hours per year allowed by CalPERS and the Personnel Management Policy and Procedures Manual as indicated in SCO Finding 4.

Recommendation

The DPR's Payroll Transaction Unit will send each month an alert and the Intermittent Benefits Tracking Report to District offices informing them of employees who are close to exceeding the maximum number of hours per year or fiscal year for retired annuitants. The alert will be sent to the Administrative Officer who will forward electronically or via mail to the employee and the employee's manager. This process will be implemented by January 31, 2013.

Sincerely,

Aaron S. Robertson

Aaron S. Robertson
Chief Deputy Director

Attachment B— State Controller's Office Auditor's Comments to California Department of Parks and Recreation's Response

We are providing the following comments on the California Department of Parks and Recreation's (DPR) response to Findings 2 and 3 contained in this report.

SCO's Comments on DPR's response to Finding 2

The DPR disagreed that the individuals identified during our review had inappropriate access to the payroll system. We fail to see how access to the system was appropriate during the time that the buy-back occurred, as the access was not properly authorized or justified. The SCO's Decentralized Security Program does allow input access for managers provided that the access is only for a limited period of time and only if written justification for the access is received and approved by the SCO. At the time that the leave buy-back occurred, no written justification was received and approved by the SCO for any of the three individuals identified in our report. Additionally, the DPR indicates that access was needed to fulfill the additional workload created by the MyCalPAYS training and transition. As indicated in DPR's response, the SCO did grant access for this purpose to one of the managers in July 2012 until November 2012. However, during the time that the buy-back occurred in 2011, the DPR would not have been able to use the MyCalPAYS training and transition period to properly justify its manager's access, because at that time, the MyCalPAYS training and transition period had not yet begun.

SCO's Comments to DPR's response to Finding 3

The DPR disagreed with Finding 3; however, the basis for its disagreement is incorrect and allowing employees to receive PLP leave credits while on NDI results in overpayments to employees. The DPR cited SCO Personnel Letter #11-05, Section VII as the basis for its disagreement; the letter states that "the PLP Earnings Identifier is to remain on the EH record of employees placed on disability leave, but not taken off payroll (i.e., SPC transaction)." This instruction is correct because this SPC process allows the employee to work for part of the month while being on NDI status for part of the month. Although this instruction by itself could create confusion, Section VII continues to state, "See below for disability payroll processing instructions." These additional payroll processing instructions are located in Payroll Processing section IV, which provides the proper payroll instructions to ensure that PLP balances are correctly credited for employees on NDI. As these instructions are similar for the current 2012 PLP program, the SCO strongly recommends that the DPR implement our recommendation to provide proper training to ensure that these instructions are allowed so that future PLP balances are properly credited for the ongoing 2012 PLP program. Additionally, the DPR will need to adjust employee leave balance accounts for the unearned PLP identified in Finding 3.

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