

# DEPARTMENT OF GENERAL SERVICES

## Final Audit Report

### PAYROLL PROCESS AND TRANSACTIONS

*October 1, 2019, through September 30, 2022*



MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

May 2026



**STATE CONTROLLER'S OFFICE | DIVISION OF AUDITS**

Post Office Box 942850 | Sacramento, CA 94250

Sacramento Office: 3301 C Street, Suite 700 | Sacramento, CA 95816 | 916-324-8907

Monterey Park Office: 901 Corporate Center Drive, Suite 200 | Monterey Park, CA 91754 | 323-981-6802

[www.sco.ca.gov](http://www.sco.ca.gov)



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

May 27, 2026

Ms. Ana M. Lasso, Director  
Department of General Services  
707 3<sup>rd</sup> Street, 7<sup>th</sup> Floor MS 402  
West Sacramento, CA 95605

Dear Director Lasso:

The State Controller's Office audited the Department of General Services' payroll process and transactions for the period of October 1, 2019, through September 30, 2022. The audit was conducted pursuant to Government Code sections 12476 and 12410.

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

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

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

Ms. Ana M. Lasso

May 27, 2026

Page 2 of 3

Copy: Rachel Grant Kiley, Acting Deputy Director

Administration Division

Department of General Services

MarySue Paul, Chief

Office of Human Resources

Department of General Services

Christina Castille, Chief

Transactions and Payroll Branch

Department of General Services

Erin Carter, Assistant Chief

Transactions and Payroll Branch

Department of General Services

Alex English, Assistant Chief

Transactions and Payroll Branch

Department of General Services

Andy Won, Deputy Director

Office of Audit Services

Department of General Services

Ricardo DeLaCruz, Deputy Director

Enterprise Planning and InClusiveness Division

Department of General Services

Helen Fairchild, Chief

Administrative Services Division

California Department of Human Resources

Lisa Dean, Acting Chief

Personnel and Payroll Services Division

State Controller's Office

Ms. Ana M. Lasso

May 27, 2026

Page 3 of 3

Veronica Encinas, Bureau Chief  
Personnel and Payroll Services Division  
State Controller's Office  
Jennifer Burkett, Director  
California State Payroll System Project  
State Controller's Office

# CONTENTS

---

---

|                                                                           |    |
|---------------------------------------------------------------------------|----|
| SUMMARY                                                                   | 1  |
| BACKGROUND                                                                | 1  |
| AUDIT AUTHORITY                                                           | 2  |
| OBJECTIVES, SCOPE, AND METHODOLOGY                                        | 2  |
| CONCLUSION                                                                | 5  |
| FOLLOW-UP ON PRIOR AUDIT FINDINGS                                         | 7  |
| VIEWS OF RESPONSIBLE OFFICIALS                                            | 7  |
| RESTRICTED USE                                                            | 8  |
| SCHEDULE—SUMMARY OF AUDIT RESULTS                                         | 9  |
| FINDINGS AND RECOMMENDATIONS                                              | 11 |
| APPENDIX—AUDIT SAMPLING METHODOLOGY                                       | 34 |
| ATTACHMENT—DEPARTMENT OF GENERAL SERVICES' RESPONSE TO DRAFT AUDIT REPORT | 36 |

## SUMMARY

---

The State Controller's Office (SCO) audited the Department of General Services' (DGS) payroll process and transactions for the period of October 1, 2019, through September 30, 2022.

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

Our audit determined that DGS administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

However, we also found that DGS did not:

- Maintain adequate and effective internal controls over certain aspects of its payroll process, as described in Findings 1 through 8; or
- Process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures in certain instances, as described in Findings 3 and 8.

## BACKGROUND

---

The SCO maintains the State's payroll system in accordance with Government Code (GC) section 12470 et seq. The system is decentralized, allowing state agencies and departments to process their own payroll-related transactions. The SCO conducts periodic payroll audits to gain assurance that state agencies and departments maintain adequate internal control over the payroll function, provide proper oversight of their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

All users of the State's payroll system must comply with the *Decentralized Security Program Manual* (DSP Manual), issued by the SCO's Personnel and Payroll Services Division, in order to access the payroll system. The manual defines the SCO's security requirements and describes users' responsibilities, which include securing, maintaining, and monitoring the confidentiality and integrity of sensitive and confidential data; and protecting data and systems against misuse, abuse, and unauthorized use.

## AUDIT AUTHORITY

---

---

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

## OBJECTIVES, SCOPE, AND METHODOLOGY

---

---

We performed this audit to determine whether DGS:

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

The audit covered the period from October 1, 2019, through September 30, 2022. The audit population consisted of payroll transactions totaling \$688,767,236, as quantified in the Schedule.

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

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

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

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

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## CONCLUSION

---

Our audit determined that DGS administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. However, we also found that DGS did not maintain adequate and effective internal controls over its payroll process; and did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

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

- DGS had inadequate segregation of duties and compensating controls over payroll transactions (see Finding 1).
- Fifty of the 84 (60 percent) DGS employees whose records we reviewed during the audit had inappropriate keying access to the State's payroll system (see Finding 2).
- DGS did not reduce an employee's balance in the State's leave accounting system after one of 77 regular pay transactions that we examined, and understated an employee's balance by 51 hours in one of the transactions. The identified and projected unreduced leave credits totaled \$908,758, and the identified and projected understated leave credits totaled \$3,020,217. In addition, DGS overpaid three transactions (four percent) by \$8,210, and underpaid one transaction by \$13; we projected the additional overpayments to be \$12,380,497 and underpayments to be \$19,951. Furthermore, DGS did not consistently

maintain timesheets for regular pay. Based on our audit testing, we estimated that one percent of the timesheets associated with regular pay transactions during the audit period were not retained. We identified \$5,605 and projected an additional \$8,453,074 in unsupported payments (see Finding 3).

- DGS overpaid three of 77 (four percent) overtime transactions that we examined by a total of \$364 and underpaid one transaction by \$80. We projected an additional \$42,742 in overpayments and \$9,393 in underpayments. In addition, DGS did not consistently maintain timesheets and calculations for overtime pay. Based on our audit testing, we estimated that 19 percent of the timesheets associated with overtime payments during the audit period were not retained. We identified \$8,725 and projected an additional \$1,024,339 in unsupported payments (see Finding 4).
- DGS did not appropriately reduce employees' balances in the State's leave accounting system after separation lump-sum payments were made to 54 of 56 (96 percent) employees whose records we examined. We identified unreduced leave credits with a value of \$2,747,655. In addition, DGS overpaid 14 (25 percent) employees by a total of \$61,008 and underpaid 11 (20 percent) employees by a total of \$40,058. We also found that DGS did not make separation lump-sum payments to 17 (30 percent) employees in a timely manner. Furthermore, DGS lacked the documentation associated with payments, with a value of \$549,263, to nine (16 percent) employees (see Finding 5).
- DGS had inadequate controls to ensure that it adhered to requirements limiting the accumulation of vacation and annual leave credits. Fifty-seven of the 77 (74 percent) employees whose vacation and annual leave records we examined had accumulated hours that exceeded the limits set by collective bargaining agreements and state regulations. This noncompliance resulted in liability for excessive vacation and annual leave balances with a value of at least \$550,838 as of September 30, 2022. We projected an additional \$3,627,106 in liability for excessive vacation and annual leave balances (see Finding 6).
- DGS overpaid nine of 77 (12 percent) holiday pay transactions that we examined by \$3,004 and underpaid nine (12 percent) transactions by \$1,505. We projected an additional

\$28,534 in overpayments and \$14,294 in underpayments. In addition, DGS did not consistently maintain timesheets for holiday pay. Based on our audit testing, we estimated that 13 percent of the timesheets associated with holiday payments during the audit period had not been retained. We identified \$3,117 and projected an additional \$29,612 in unsupported payments (see Finding 7).

- DGS did not consistently maintain supporting documentation for leave buy-back payments. Based on our audit testing, we estimated that 47 percent of the supporting documentation associated with leave buy-back transactions during the audit period had not been retained. We identified \$131,864 and projected an additional \$1,943,721 in unsupported payments (see Finding 8).

## **FOLLOW-UP ON PRIOR AUDIT FINDINGS**

---

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

## **VIEWS OF RESPONSIBLE OFFICIALS**

---

We issued a draft audit report on October 30, 2025. A DGS representative responded by letter dated November 10, 2025. DGS generally agreed with the recommendations. This final audit report includes the DGS' response as an attachment.

## RESTRICTED USE

---

This audit report is solely for the information and use of DGS 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 and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA

Chief, Division of Audits

May 27, 2026

## SCHEDULE—SUMMARY OF AUDIT RESULTS

October 1, 2019, through September 30, 2022

Legend for Column 2, Method of Selection: FE = 100 percent examined; J = Judgmental; S = Statistical; T = Targeted.

Legend for Column 6, Selection Unit: EM = Employee; TR = Transaction.

| Audit Area Tested     | Method of Selection | Number of Units of Population | Dollar Amount of Population | Number of Selections Examined | Selection Unit | Dollar Amount of Selections Examined | Net Total Dollar Amount of Identified Improper Costs | Net Total Dollar Amount of Projected Improper Costs and Identified and Projected Unsupported Costs | Reference |
|-----------------------|---------------------|-------------------------------|-----------------------------|-------------------------------|----------------|--------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------|
| Segregation of duties |                     |                               |                             |                               |                |                                      |                                                      |                                                                                                    | Finding 1 |
| System access         | FE                  | 84                            |                             | 84                            | EM             |                                      |                                                      |                                                                                                    | Finding 2 |
| Regular pay           | S                   | 114,712                       | \$660,520,412               | 77                            | TR             | \$437,719                            | \$6,798                                              | \$18,709,165                                                                                       | Finding 3 |
| Overtime pay          | S                   | 10,383                        | 10,091,643                  | 77                            | TR             | 85,228                               | 284                                                  | 1,066,413                                                                                          | Finding 4 |

| Audit Area Tested                | Method of Selection | Number of Units of Population | Dollar Amount of Population | Number of Selections Examined | Selection Unit | Dollar Amount of Selections Examined | Net Total Dollar Amount of Identified Improper Costs | Net Total Dollar Amount of Projected Improper Costs and Identified and Projected Unsupported Costs | Reference |
|----------------------------------|---------------------|-------------------------------|-----------------------------|-------------------------------|----------------|--------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------|
| Separation lump-sum pay          | J                   | 608                           | 7,985,164                   | 56                            | EM             | 3,883,917                            | 2,768,605                                            | 549,263                                                                                            | Finding 5 |
| Excess vacation and annual leave | S                   | 486                           | 5,558,299                   | 77                            | EM             | 732,830                              | 550,838                                              | 3,627,106                                                                                          | Finding 6 |
| Holiday credit                   | T                   | 3,753                         | 218,062                     | 29                            | TR             | 6,340                                | 0                                                    | 0                                                                                                  |           |
| Holiday pay                      | S                   | 778                           | 321,239                     | 77                            | TR             | 30,594                               | 1,499                                                | 46,969                                                                                             | Finding 7 |
| Leave buy-back                   | S                   | 1,158                         | 4,067,832                   | 77                            | TR             | 258,433                              | 0                                                    | 2,075,585                                                                                          | Finding 8 |
| Salary advance                   | FE                  | 1                             | 4,585                       | 1                             | EM             | 4,585                                | 0                                                    | 0                                                                                                  |           |
| <b>Total</b>                     |                     |                               | <b><u>\$688,767,236</u></b> |                               |                | <b><u>\$5,439,646</u></b>            | <b><u>\$3,328,024</u></b>                            | <b><u>\$26,074,501</u></b>                                                                         |           |

## FINDINGS AND RECOMMENDATIONS

---

### **Finding 1—Inadequate Segregation of Duties and Compensating Controls over Payroll Transactions**

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

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

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the DGS payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. These control deficiencies, in combination with other deficiencies discussed in Findings 2 through 8, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that material noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.

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

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

## Criteria

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

## Recommendation

We recommend that DGS:

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

If it is not possible to segregate payroll functions fully and appropriately, DGS should implement compensating controls. For example, if the payroll transactions unit staff member responsible for record-keeping also performs a reconciliation process, then the supervisor should perform and document a detailed review of the reconciliation to provide additional control over the assignment of conflicting functions. Compensating controls may

also include dual authorization requirements and documented reviews of payroll system input and output; and

- Develop formal procedures for performing and documenting compensating controls.

## **Finding 2—Inappropriate Access to the State’s Payroll System**

DGS lacked adequate controls to ensure that only appropriate staff members had access to the State’s payroll system. DGS inappropriately allowed 50 employees access to the State’s payroll system.

We examined the records of 84 DGS employees who had access to the State’s payroll system at various times during the audit period. Of the 84 DGS employees, 50 had inappropriate access to the State’s payroll system. Specifically, DGS did not immediately remove or modify access for the employees after the employees’ separation from state service, transfer to another agency, or change in classification. For example, an Associate Government Program Analyst left DGS on December 21, 2019. DGS did not request to remove the employee’s access until June 19, 2022, a total of 911 days later. DGS lacked periodic review of access granted to employees to ensure compliance with the DSP Manual.

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

### **Criteria**

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

The [State’s payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their duties. . . .

If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately by a request submitted by the department/campus.

The June 2020 DSP Manual ("Access Requirements," page 7) states, in part:

The [State's payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their regular daily duties. . . .

If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately via a request submitted by the department/campus.

The October 2020 DSP Manual ("Access Requirements," pages 5-6) states, in part:

The [State's payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their regular daily duties. . . .

If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately via a request submitted by the department/campus Security Monitor/Assistant Security Monitor. . . .

The August 2022 DSP Manual ("Access Requirements," pages 5-6) states, in part:

The [State's payroll system] contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their regular daily duties. . . .

If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately via a request submitted by the department/campus Security Monitor/Assistant Security Monitor.

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

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

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

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

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

To prevent unauthorized use by a transferred, terminated or resigned employee’s User ID, the Security Monitor must IMMEDIATELY contact [the Decentralized Security Administrator] by email. The Security Monitor/Assistant Security Monitor must electronically submit all pages of the PSD125A [security authorization form] signed by both Security Monitor/Assistant Security Monitor and Authorizing Official/Assistant Authorizing Official to delete the user’s system access. Using an old User ID increases the risk of a security breach, which is a serious security violation. Sharing a User ID is strictly prohibited. . . .

The August 2022 DSP Manual (“Revocation and Deletion of User IDs,” page 8) states, in part:

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

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

## Recommendation

We recommend that DGS:

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

## Finding 3—Inaccurate Leave Accounting and Improper and Unsupported Payments for Regular Pay

DGS lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls to ensure accurate leave accounting for regular pay, adequate supervisory review to ensure accurate processing of regular pay, and adequate controls to ensure that supporting documentation was maintained for regular pay.

Payroll records show that DGS processed 114,712 regular pay transactions, totaling \$660,520,412, during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling \$437,719. Based on our examination of these transactions, we found the following errors:

- DGS did not appropriately reduce an employee's balance in the State's leave accounting system in one transaction to reflect the number of leave credits—with a value of \$602—

that had been paid. Unreduced leave balances pose a risk to the State because they overstate the State's liabilities for leave balances and allow the possibility of improper and duplicative payments for leave credits. We projected additional unreduced leave credits with a value of \$908,156.

- DGS understated an employee's leave balance by 51 hours in one transaction—with a value of \$2,001—because the payroll transactions unit staff member reduced the balance in the State's leave accounting system by a number of leave credits that was more than the number of leave credits that had been used and paid. We also projected additional understated leave credits with a value of \$3,018,216.
- DGS overpaid three (four percent) transactions by \$8,210 and underpaid one transaction by \$13 because the payroll transactions unit staff members paid for more hours than the employee had worked, miscalculated regular hours worked, and paid differential pay to an employee who was ineligible for the pay. We projected the additional overpayments to be \$12,380,497 and underpayments to be \$19,951.
- DGS lacked a timesheet associated with one transaction, totaling \$5,605. Without the required documentation, we could not determine the validity, accuracy, and propriety of the payments made to the employee; or the completeness and accuracy of the leave accounting records. We projected the additional unsupported payments to be \$8,453,074.

If not mitigated, the control deficiencies leave DGS at risk of making additional improper and unsupported payments for regular pay.

### **Statistical sampling results**

The identified value of unreduced and understated leave credits, improper payments, and unsupported payments totals a net of \$12,403.

We used a statistical sampling method to select the regular pay transactions that we examined. We projected an additional \$908,156 in unreduced leave credits and an additional \$3,018,216 in understated leave credits. We also projected additional overpayments of

\$12,380,497, additional underpayments of \$19,951, and additional unsupported payments of \$8,453,074. The projected value of improper and unsupported costs has a net total of \$18,703,560. Therefore, the net value of identified and projected improper and unsupported costs is \$18,715,963, consisting of \$908,758 in unreduced leave credits, \$3,020,217 in understated leave credits, \$12,388,707 in overpayments, \$19,964 in underpayments, and \$8,458,679 in unsupported payments.

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

| Calculation of Projected Errors                                                                                                                    | Amount                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Identified value of unreduced and understated leave credits and improper and unsupported payments, net                                             | \$12,403                          |
| Divide by: Sample                                                                                                                                  | <u>437,719</u>                    |
| Error rate for projection (differences due to rounding)                                                                                            | <u>2.83%</u>                      |
| Population that was statistically sampled                                                                                                          | 660,520,412                       |
| Multiply by: Error rate for projection                                                                                                             | <u>2.83%</u>                      |
| Identified and projected value of unreduced and understated leave credits and improper and unsupported payments, net (differences due to rounding) | 18,715,963                        |
| Less: Identified value of unreduced and understated leave credits and improper and unsupported payments, net                                       | <u>12,403</u>                     |
| <b>Projected value of unreduced and understated leave credits and improper and unsupported payments, net</b>                                       | <b><u><u>\$18,703,560</u></u></b> |

## Criteria

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

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding regular pay.

DGS' Record Retention Schedule specifies a four-year retention period for timesheets.

## Recommendation

We recommend that DGS:

- Conduct a review of regular pay transactions during the past three years to ensure that the transactions complied with collective bargaining agreements and state laws and policies;
- Adjust employee leave balances in the State's leave accounting system;
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838 and State Administrative Manual (SAM) sections 8291, 8291.1, and 8293; and
- Properly compensate the employee who was underpaid.

We further recommend that, to prevent improper payments for regular pay from recurring, DGS:

- Establish adequate controls to ensure that employee leave balances are accurately reduced after payments are made;
- Establish adequate controls to ensure that payments are valid and comply with collective bargaining agreements and state law and policies;
- Establish adequate controls to ensure that payments are calculated accurately; and
- Maintain supporting documentation for payments pursuant to its retention policies.

## Finding 4— Improper and Unsupported Overtime Payments

DGS lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls over the processing of overtime pay, adequate supervisory review to ensure accurate processing of overtime pay, and adequate controls to ensure that timesheets were maintained to support overtime payments.

Payroll records show that DGS processed 10,383 overtime pay transactions, totaling \$10,091,643, during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling \$85,228. Based on our examination of these transactions, we found the following errors:

- DGS overpaid three (four percent) transactions by \$364 and underpaid one of the transactions by \$80 because the payroll transactions unit staff members miscalculated overtime hours worked. We projected the additional overpayments to be \$42,742 and underpayments to be \$9,393.
- DGS lacked timesheets and calculations associated with 15 (19 percent) transactions, with a total value of \$8,725. Without the required documentation, we could not determine the validity, accuracy, and propriety of the payments made to the employees; or the completeness and accuracy of the leave accounting records. We projected the additional unsupported payments to be \$1,024,339.

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

### **Statistical sampling results**

The identified improper and unsupported payments have a net total of \$9,009.

We used a statistical sampling method to select the overtime pay transactions that we examined. We projected an additional \$42,742 in overpayments and \$9,393 in

underpayments; we also projected an additional \$1,024,339 in unsupported payments. The projected improper and unsupported payments totaled a net of \$1,057,688. Therefore, the identified and projected improper and unsupported payments totaled a net of \$1,066,697, consisting of \$43,106 in overpayments, \$9,473 in underpayments, and \$1,033,064 in unsupported payments.

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

| Calculation of Projected Errors                                                                  | Amount                           |
|--------------------------------------------------------------------------------------------------|----------------------------------|
| Identified improper and unsupported payments, net                                                | \$9,009                          |
| Divide by: Sample                                                                                | <u>85,228</u>                    |
| Error rate for projection (differences due to rounding)                                          | <u>10.57%</u>                    |
| Population that was statistically sampled                                                        | 10,091,643                       |
| Multiply by: Error rate for projection                                                           | <u>10.57%</u>                    |
| Identified and projected improper and unsupported payments, net<br>(differences due to rounding) | 1,066,697                        |
| Less: Identified improper and unsupported payments, net                                          | <u>9,009</u>                     |
| <b>Projected improper and unsupported payments, net</b>                                          | <b><u><u>\$1,057,688</u></u></b> |

## Criteria

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

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding overtime pay.

DGS' Record Retention Schedule specifies a four-year retention period for timesheets.

## Recommendation

We recommend that DGS:

- Conduct a review of overtime payments made during the past three years to ensure that the payments complied with collective bargaining agreements and state laws and policies;
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838 and SAM sections 8291, 8291.1, and 8293; and
- Properly compensate those employees who were underpaid.

We further recommend that, to prevent improper payments for overtime pay from recurring, DGS:

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

## Finding 5—Inaccurate Leave Accounting; Improper, Late, and Unsupported Separation Lump-sum Payments

DGS lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls to ensure accurate leave accounting for separation lump-sum pay, adequate supervisory review to ensure

accurate and timely processing of separation lump-sum pay, and adequate controls to ensure that supporting documentation was maintained for separation lump-sum pay.

Payroll records show that DGS processed separation lump-sum payments, totaling \$7,985,164, for 608 employees during the audit period. We judgmentally selected a sample of 56 employees who received the highest separation lump-sum payments, totaling \$3,883,917. Based on our examination of the records of these employees, we found the following errors:

- DGS did not appropriately reduce employees' leave balances in the State's leave accounting system for 54 (96 percent) employees to reflect the number of leave credits—with a value of \$2,747,655 that had been paid. Unreduced leave balances pose a risk to the State because they overstate the State's liabilities for leave balances and allow the possibility of improper and duplicative payments for leave credits.
- DGS overpaid 14 (25 percent) employees by a total of \$61,008 and underpaid 11 (20 percent) employees by a total of \$40,058 because payroll transactions unit staff members miscalculated leave credits paid.
- DGS did not make separation lump-sum payments to 17 (30 percent) employees in a timely manner.
- DGS could not locate supporting documents (lump-sum calculation worksheets, leave balance statements, state calendars, and timesheets) for payments, totaling \$549,263, made to nine (16 percent) employees. Without the required documentation, we could not determine the validity, accuracy, and propriety of the payments made to the employees; or the completeness and accuracy of the leave accounting records.

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

## Criteria

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

GC section 19839 allows lump-sum payment for accrued eligible leave credits when an employee separates from state employment. Collective bargaining agreements include similar provisions regarding separation lump-sum pay. Collective bargaining agreements and state laws summarized in section 1703 of the California Department of Human Resources' (CalHR) *Human Resources Manual* establish separation lump-sum pay requirements.

## Recommendation

We recommend that DGS:

- Conduct a review of separation lump-sum payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law;
- Recover overpayments made to separated employees in accordance with GC section 19838 and SAM sections 8291, 8291.1, and 8293; and
- Properly compensate those employees who were underpaid.

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

- Employee leave balances are reduced in a timely manner after payments are made;
- Payments are calculated accurately; and
- Payments are made in a timely manner.

## Finding 6—Excess Vacation and Annual Leave Balances

DGS' leave accounting records show 2,630 employees with unused vacation or annual leave credits at September 30, 2022. Of these employees, 486 employees exceeded the original limit set by collective bargaining agreements and state regulations. The employees accumulated 124,451 hours of excess vacation and annual leave, with a value of at least \$5,558,299 as of September 30, 2022. Our audit determined that for 57 of the employees whose records we examined, DGS had failed to implement controls to ensure that it adhered to the requirements. This estimated liability does not adjust for salary-rate increases and additional leave credits.

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

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

On October 20, 2020, CalHR directed departments to immediately suspend policies that require leave balances to be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension was in effect until the 2020 Personal Leave Program ended on June 30, 2021.

Of the 486 employees with excess vacation and annual leave, we randomly selected a statistical sample (as described in the Appendix) of 77 employees who accumulated 16,292 hours of excess vacation and annual leave balances, with a value of at least \$732,830. We examined the records of these employees to determine whether DGS had complied with collective bargaining agreements and state regulations.

For 57 of the 77 employees whose records we examined, DGS did not comply with collective bargaining agreements and state regulations. We found the following:

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

The 57 employees accumulated 13,652 hours of excess vacation and annual leave balances, with a value of at least \$550,838.

### **Statistical sampling results**

The identified value of excess vacation and annual leave balances that did not comply with collective bargaining agreements and state regulations totaled at least \$550,838.

We used a statistical sampling method to select the employee records that we examined. We projected additional excess vacation and annual leave balances with a value of at least \$3,627,106. Therefore, the value of identified and projected excess vacation and annual leave balances totaled \$4,177,944.

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

| Calculation of Projected Errors                                                                     | Amount                           |
|-----------------------------------------------------------------------------------------------------|----------------------------------|
| Identified excess vacation and annual leave balances                                                | \$550,838                        |
| Divide by: Sample                                                                                   | <u>732,830</u>                   |
| Error rate for projection (differences due to rounding)                                             | <u>75.17%</u>                    |
| Population that was statistically sampled                                                           | 5,558,299                        |
| Multiply by: Error rate for projection                                                              | <u>75.17%</u>                    |
| Identified and projected excess vacation and annual leave balances<br>(differences due to rounding) | 4,177,944                        |
| Less: Identified excess vacation and annual leave balances                                          | <u>550,838</u>                   |
| <b>Projected excess vacation and annual leave balances</b>                                          | <b><u><u>\$3,627,106</u></u></b> |

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

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

## Criteria

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate to no more than 80 days (640 hours). The current collective bargaining agreement between the State and Bargaining Unit 1 temporarily increased the limit by 120 hours. The current collective bargaining agreement between the State and Bargaining Unit 2 temporarily increased the limit by 128 hours. The

collective bargaining agreement between the State and Bargaining Unit 9 temporarily increased the limit by 192 hours and shows that the limit will systematically decrease over time until it reverts to the original limit of 640 hours on January 1, 2028.

## Recommendation

We recommend that DGS:

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

## Finding 7—Improper and Unsupported Holiday Payments

DGS lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls over the processing of holiday payments, and adequate controls to ensure that timesheets were maintained to support holiday payments.

Payroll records show that DGS processed 778 holiday pay transactions, totaling \$321,239, during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling \$30,594. Based on our examination of these transactions, we found the following errors:

- DGS overpaid the employees in nine (12 percent) transactions by a total of \$3,004 and underpaid the employees in nine (12 percent) transactions by a total of \$1,505 because payroll transactions unit staff members improperly granted holiday credits in addition to

holiday pay; granted an incorrect number of holiday hours; paid for holiday hours earned at the straight-time rate instead of the time-and-a-half rate, or vice-versa; granted holiday pay to employees who were not eligible for the pay; and improperly calculated holiday credit payments. We projected the additional overpayments to be \$28,534 and underpayments to be \$14,294.

- DGS lacked timesheets associated with 10 (13 percent) transactions, with a value of \$3,117. Without the required documentation, we could not determine the validity, accuracy, and propriety of the payments made to the employees or the completeness and accuracy of the leave accounting records. We projected the additional unsupported payments to be \$29,612.

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

### **Statistical sampling results**

The identified improper and unsupported payments have a net total value of \$4,616.

We used a statistical sampling method to select the holiday pay transactions that we examined. We projected an additional \$28,534 in overpayments and \$14,294 in underpayments; we also projected an additional \$29,612 in unsupported payments. The projected improper and unsupported payments totaled a net of \$43,852. Therefore, the identified and projected improper and unsupported payments totaled a net of \$48,468 consisting of \$31,538 in overpayments, \$15,799 in underpayments, and \$32,729 in unsupported payments.

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

| Calculation of Projected Errors                         | Amount        |
|---------------------------------------------------------|---------------|
| Identified improper and unsupported payments, net       | \$4,616       |
| Divide by: Sample                                       | <u>30,594</u> |
| Error rate for projection (differences due to rounding) | <u>15.09%</u> |

| Calculation of Projected Errors                                                                  | Amount          |
|--------------------------------------------------------------------------------------------------|-----------------|
| Population that was statistically sampled                                                        | 321,239         |
| Multiply by: Error rate for projection                                                           | 15.09%          |
| Identified and projected improper and unsupported payments, net<br>(differences due to rounding) | 48,468          |
| Less: Identified improper and unsupported payments, net                                          | 4,616           |
| <b>Projected improper and unsupported payments, net</b>                                          | <b>\$43,852</b> |

## Criteria

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

GC section 19853 specifies the compensation that eligible employees are entitled to receive when required to work on a qualifying holiday. Collective bargaining agreements between the State and various bargaining units include similar provisions regarding holiday pay for represented employees.

DGS' Record Retention Schedule specifies a four-year retention period for timesheets.

## Recommendation

We recommend that DGS:

- Conduct a review of holiday pay granted during the past three years to ensure that credits are properly supported with documentation, and complied with collective bargaining agreements and state law;
- Recover overpayments made to employees in accordance with GC section 19838 and SAM sections 8291, 8291.1, and 8293; and
- Properly compensate those employees who were underpaid.

We further recommend that, to prevent inaccurate processing of holiday payments from recurring, DGS:

- Establish adequate controls to ensure that payments are valid and comply with collective bargaining agreements and state laws and policies;
- Establish adequate controls to ensure that payments are calculated correctly; and
- Maintain supporting documentation for payments pursuant to its retention policies.

## **Finding 8—Unsupported Leave Buy-back Payments**

DGS lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. It also lacked adequate controls to ensure that supporting documentation was maintained to support leave buy-back payments.

A leave-buy back occurs when an employee receives payment at the regular salary rate in exchange for accrued vacation, annual leave, personal leave, personal holiday, and/or holiday credits. CalHR authorized leave buy-backs for excluded employees in fiscal year 2020-21 and fiscal year 2021-22. It also provided the State's policies and procedures regarding cash-out of vacation and annual leave.

Payroll records show that DGS processed 1,158 leave buy back transactions, totaling \$4,067,832, during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling \$258,433. Based on our examination of these transactions, we found that DGS lacked supporting documentation (leave buy-back forms and calculations) associated with 36 (47 percent) transactions totaling \$131,864. Without the required documentation, we could not determine the validity, accuracy, and propriety of the payments made to the employees or the completeness and accuracy of the leave accounting records. We projected the additional unsupported payments to be \$1,943,721.

If not mitigated, these control deficiencies leave DGS at risk of making improper leave buy-back payments.

**Statistical sampling results**

The identified value of unsupported payments totals \$131,864.

We used a statistical sampling method to select the leave buy-back transactions that we examined. We projected an additional \$1,943,721 in unsupported payments. Therefore, the identified and projected unsupported payments totaled \$2,075,585.

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

| Calculation of Projected Errors                                                | Amount                           |
|--------------------------------------------------------------------------------|----------------------------------|
| Identified unsupported payments                                                | \$131,864                        |
| Divide by: Sample                                                              | <u>258,433</u>                   |
| Error rate for projection (differences due to rounding)                        | <u>51.02%</u>                    |
| Population that was statistically sampled                                      | 4,067,832                        |
| Multiply by: Error rate for projection                                         | <u>51.02%</u>                    |
| Identified and projected unsupported payments<br>(differences due to rounding) | 2,075,585                        |
| Less: Identified unsupported payments                                          | <u>131,864</u>                   |
| <b>Projected unsupported payments</b>                                          | <b><u><u>\$1,943,721</u></u></b> |

**Criteria**

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

Title 2, California Code of Regulations, section 599.744 provides that CalHR may also authorize a leave buy-back program for employees excluded from collective bargaining.

Collective bargaining agreements between the State and various bargaining units allow for the annual cash-out of a certain number of hours of accumulated vacation and annual leave if funds are available.

DGS' Record Retention Schedule specifies a four-year retention period for leave buy-back supporting documentation.

## **Recommendation**

We recommend that DGS maintain supporting documentation for leave buy-back payments pursuant to its retention policies.

## APPENDIX—AUDIT SAMPLING METHODOLOGY

---

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

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

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

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

The confidence level was 90.00 percent, the tolerable error rate was 5.00 percent, and the expected number of errors was 1.0. Pursuant to the AICPA's *Audit Guide: Audit Sampling* (December 1, 2019 edition), pages 131–132, the expected number of errors planned for in the sample is derived by multiplying the expected error rate by the sample size. The expected error rate was 1.25 percent. The expected number of errors in the sampling tables on

pages 135–136 of *Audit Guide: Audit Sampling* is rounded upward, e.g., 0.2 errors become 1.0 error. Results were projected to the intended (total) population.

The following table summarizes the population details and sample sizes for all audit areas where statistical sampling was used:

| Audit Area                       | Population (Unit) | Population (Dollar) | Sampling Unit | Sample Size | Reference |
|----------------------------------|-------------------|---------------------|---------------|-------------|-----------|
| Regular pay                      | 114,712           | \$660,520,412       | Transaction   | 77          | Finding 3 |
| Overtime pay                     | 10,383            | 10,091,643          | Transaction   | 77          | Finding 4 |
| Excess vacation and annual leave | 486               | 5,558,299           | Employee      | 77          | Finding 6 |
| Holiday pay                      | 778               | 321,239             | Transaction   | 77          | Finding 7 |
| Leave buy-back                   | 1,158             | 4,067,832           | Transaction   | 77          | Finding 8 |

# ATTACHMENT—DEPARTMENT OF GENERAL SERVICES' RESPONSE TO DRAFT AUDIT REPORT

---

---



## MEMORANDUM

---

**Date:** November 10, 2025

**To:** The Honorable Malia M. Cohen, State Controller  
California State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250

**From:** Ana M. Lasso, Director  
Department of General Services

**Subject:** **RESPONSE TO STATE CONTROLLER'S PAYROLL SYSTEM AUDIT OF THE  
DEPARTMENT OF GENERAL SERVICES**

Thank you for the opportunity to respond to the California State Controller's (SCO) draft audit report of the Department of General Services' (DGS) Payroll System. The audit period was between October 1, 2019, and September 30, 2022. The following response addresses each of the recommendations.

### OVERVIEW OF THE REPORT

DGS has reviewed the findings, criteria, and recommendations in the audit report, and generally agrees with SCO's recommendations.

DGS welcomes the opportunity to identify ways to strengthen those areas identified for improvement within DGS' Payroll System. DGS is firmly committed to strengthening these areas and will strive to implement the recommendations.

### RECOMMENDATIONS

**FINDING #1 – Inadequate segregation of duties and lack of compensating controls over payroll transactions:**

**RECOMMENDATION #1:** **A. Separate conflicting payroll functional duties to the greatest extent possible. Adequate segregation of duties will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another.**

Malia M. Cohen

-2-

November 10, 2025

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

**B. Develop formal procedures for performing and documenting compensating controls.**

**DGS RESPONSE #1:**

DGS generally agrees with the recommendation. DGS plans to conduct a thorough review and to research the audit findings. DGS will take the appropriate steps to implement the recommendations to the extent feasible.

**RECOMMENDATIONS**

***FINDING #2 – Inappropriate keying access to the State’s payroll system:***

**RECOMMENDATION #2:** **A. Update keying access to the State’s payroll system immediately after employees leave DGS, transfer to another unit, or change classifications; and**

**B. Periodically review access to the system to verify that access complies with the DSP Manual.**

**DGS RESPONSE #2:**

DGS generally agrees with the recommendation. October 2023, a full audit was conducted on decentralized security keying access and procedures. Based on the audit, DGS implemented a review of the keying access every 6 months to ensure proper Office of Human Resources (OHR) keying access. An email was sent out annually to remind the OHR managers of the procedure for removing keying access for staff as they exit OHR or need to have access adjusted based on a leave of absence. A periodic review is conducted to ensure staff that have keying access are active OHR employees and not on a leave of absence. An Email was immediately sent to the Decentralized Security Administrator (DSA) at SCO to remove staff that no longer need access. This is followed by sending in a

*Excellence in the Business of Government*

Malia M. Cohen

-3-

November 10, 2025

modified PSD125A to DSA at SCO. In November 2025, DGS implemented the following process:

- When offboarding employees, Attendance Coordinators are to send notice to the SCO Administrator when an employee leaves DGS that has SCO access.
- A list of Separations is generated monthly and compared to the SCO Access list. Those employees that have separated will be removed from SCO access.
- Each quarter, access for the Office of Human Resources (OHR) staff with keying access duties will be reviewed to ensure only necessary access is given.
- An email is sent out annually to remind the OHR managers of the procedure for removing keying access for staff as they exit OHR or need to have access adjusted based on a leave of absence.
- A periodic review is conducted to ensure that staff that have keying access are active OHR employees and not on a leave of absence.
- An Email is immediately sent to the Decentralized Security Administrator (DSA) at SCO to remove staff that no longer need access. This is followed up by sending in a modified PSD125A to DSA at SCO.

### RECOMMENDATIONS

***FINDING #3 – Inaccurate leave accounting and improper and unsupported payments for regular pay:***

- RECOMMENDATION #3:**
- A. Conduct a review of regular pay transactions during the past three years to ensure that the transactions complied with collective bargaining agreements and state laws and policies;***
  - B. Adjust employee leave balances in the State's leave accounting system;***
  - C. Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838 and State Administrative Manual (SAM) sections 8291, 8291.1, and 8293; and***
  - D. Properly compensate the employee who was underpaid.***
- We further recommend that, to prevent improper payments for regular pay from recurring, DGS:***

Malia M. Cohen

-4-

November 10, 2025

***E. Establish adequate controls to ensure that employee leave balances are accurately reduced after payments are made;***

***F. Establish adequate controls to ensure that payments are valid and comply with collective bargaining agreements and state law and policies;***

***G. Establish adequate controls to ensure that payments are calculated accurately; and***

***H. Maintain supporting documentation for payments pursuant to its retention policies.***

### **DGS RESPONSE #3:**

DGS generally agrees with the recommendation. DGS will conduct a review of the audit findings for regular pay and start the collection process in accordance with Government Code section 19838. In September 2023, DGS identified the automated interfacing database (ABMS) was no longer meeting payroll needs and proper reconciliation of regular pay. In September 2023, DGS stopped the interface to the SCO and adopted the manual keying process. All Personnel Specialists (PS's) were provided with training and procedures on the manual keying process into SCO. On a quarterly basis, all Attendance Clerks (AC's) attend DOCK training to properly report DOCK to ensure accurate payroll processing. On a monthly basis, all timesheets are audited and reconciled against the SCO master payroll registry and SCO California Leave Accounting System (CLAS). If discrepancies are identified through the audit process, amended timesheets are requested with the proper signatures in addition to certifying master payroll in the SCO database monthly. All 672's Time and Attendance reports and time sheets, after reconciliation are completed, are maintained for five years. The documents are stored on site.

## **RECOMMENDATIONS**

### ***FINDING #4 – Improper and unsupported overtime payments:***

**RECOMMENDATION #4:** ***A. Conduct a review of overtime payments made during the past three years to ensure that the payments complied with collective bargaining agreements and state laws and policies;***

***B. Recover overpayments made to employees through an agreed-upon collection method in***

Malia M. Cohen

-5-

November 10, 2025

**accordance with GC section 19838 and SAM sections 8291, 8291.1, and 8293; and**

**C. Properly compensate those employees who were underpaid.**

**We further recommend that, to prevent improper payments for overtime pay from recurring, DGS:**

**D. Establish adequate controls to ensure that payments are valid and comply with collective bargaining agreements and state laws and policies;**

**E. Establish adequate controls to ensure that payments are calculated accurately;**

**F. Provide adequate oversight to ensure that payroll transactions unit staff process only valid and authorized payments that comply with collective bargaining agreements and state laws and policies; and**

**G. Maintain supporting documentation for payments pursuant to its retention policies.**

**DGS RESPONSE #4:**

DGS generally agrees with the recommendation. DGS will conduct a review of the audit findings for improper overtime payments and start the collection process in accordance with Government Code section 19838. If underpayments are identified, DGS will follow the proper approval process with CalHR and send payment requests to the SCO via the 674-pay request process. In September 2023, DGS identified that the automated interfacing database was no longer meeting payroll needs and proper payment of overtime. In September 2023, DGS stopped the interface to the SCO and adopted the manual calculation and keying process on the SCO 672 Time and Attendance batches. All PS's were provided with training and procedures on the manual calculation and keying process. Once OT has been keyed and pay has issued, PS's will verify all OT payments against timesheets and batch processing. If discrepancies are identified through the audit process, pay is returned for redeposit, once redeposit occurs the correct OT pay will be keyed and issued. All 672's and timesheets are maintained in batches for five years. The documents are stored on site.

Malia M. Cohen

-6-

November 10, 2025

## RECOMMENDATIONS

***FINDING #5 – Inaccurate leave accounting; improper, late and unsupported separation lump-sum payments:***

**RECOMMENDATION #5:** ***A. Conduct a review of separation lump-sum payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law;***

***B. Recover overpayments made to separated employees in accordance with GC section 19838 and SAM sections 8291, 8291.1, and 8293; and***

***C. Properly compensate those employees who were underpaid.***

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

***D. Employee leave balances are reduced in a timely manner after payments are made;***

***E. Payments are calculated accurately; and***

***F. Payments are made in a timely manner.***

### **DGS RESPONSE #5:**

DGS generally agrees with the recommendation. DGS will conduct a review of the audit findings for improper late payments for separation lump sum and start the collection process in accordance with Government Code section 19838. If under payments are identified, DGS will follow the proper approval process with CalHR and send payment requests to the SCO via the 674 process. The automated interface was stopped in September 2023, to ensure leave used was inputted timely and accurately into the California Leave Accounting System (CLAS) when employees retire or separate. A process was implemented to conduct a 1-Year leave audit to validate proper leave deductions are reflected in CLAS at the time of retirement and/or separation. A separation checklist has been created which PS's are required to utilize and requires a two-level review and sign off process.

Malia M. Cohen

-7-

November 10, 2025

## RECOMMENDATIONS

### ***FINDING #6 – Excess vacation and annual leave balances:***

- RECOMMENDATION #6:**
- A. Implement controls, including existing policies and procedures, to ensure that its employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations;***
  - B. Conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively; and***
  - C. Participate in leave buy-back programs if the State offers such programs and funds are available.***

### **DGS RESPONSE #6:**

DGS generally agrees with the recommendation. Controls have been implemented to ensure employees' balances remain within the limits established by collective bargaining agreement and state regulations. In 2023, a process was implemented to continuously monitor balances. This includes an annual review and issuing notices requiring employees to submit a Leave Reduction Plan if their balances exceed the allowable maximum. The same applies to employees whose projected accruals may exceed the limit within the next 12 calendar pay periods.

## RECOMMENDATIONS

### ***FINDING #7 – Improper and unsupported holiday payments:***

- RECOMMENDATION #7:**
- A. Conduct a review of holiday pay granted during the past three years to ensure that credits are properly supported with documentation, and complied with collective bargaining agreements and state law;***
  - B. Recover overpayments made to employees in accordance with GC section 19838 and SAM Sections 8291, 8291.1, and 8293; and***
  - C. Properly compensate those employees who were underpaid.***

Malia M. Cohen

-8-

November 10, 2025

***We further recommend that, to prevent inaccurate processing of holiday payments from recurring, DGS:***

***D. Establish adequate controls to ensure that payments are valid and comply with collective bargaining agreements and state laws and policies;***

***E. Establish adequate controls to ensure that payments are calculated correctly; and***

***F. Maintain supporting documentation for payments pursuant to its retention policies.***

**DGS RESPONSE #7:**

DGS generally agrees with the recommendation. DGS has conducted a review of holiday pay against the audit findings and believe that DGS paid properly in accordance with bargaining unit contracts and CalHR requirements. In September 2023, DGS stopped the interface to the SCO and adopted the manual calculation and keying process on the SCO 672 Time and Attendance batches. DGS implemented the following controls: all PS's were provided training and procedures on the manual calculation and keying process, to identify proper holiday compensation in accordance with collective bargaining contracts and state law.

**RECOMMENDATIONS**

***FINDING #8 – Unsupported leave buy-back payments:***

**RECOMMENDATION #8:** ***A. We recommend that DGS maintain supporting documentation for leave buy-back payments pursuant to its retention policies.***

**DGS RESPONSE #8:**

DGS generally agrees with the recommendation. DGS will maintain supporting documents for leave buyback payout in accordance with the five-year retention policy.

Malia M. Cohen

-9-

November 10, 2025

### CONCLUSION

DGS is firmly committed to strengthening those areas identified for improvement in the report.

If you need further information or assistance on this issue, please contact me at (916) 376-5012.

Sincerely,



Ana M. Lasso  
Director

CC: Lizzy Williamson, Chief Deputy Director, DGS  
Katherine Minnich, Deputy Director, Administration Division, DGS  
Mary Sue Paul, Chief, Office of Human Resources, DGS  
Andy Won, Deputy Director, Office of Audit Services, DGS  
Christine Ciccotti, Chief Counsel and Deputy Director, Office of Legal Services, DGS