DEPARTMENT OF CONSERVATION

Final Audit Report

PAYROLL PROCESS AND TRANSACTIONS

October 1, 2019, through September 30, 2022

MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

June 2026

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CALIFORNIA STATE CONTROLLER

June 29, 2026

Ms. Jennifer Lucchesi, Director
Department of Conservation
715 P Street, MS 18-06
Sacramento, CA 95814

Dear Director Lucchesi:

The State Controller's Office audited the Department of Conservation's 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 Conservation's 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

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SUMMARY

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

DOC's 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 DOC did not:

- Maintain adequate and effective internal controls over certain aspects of its payroll process, as described in Findings 1 through 7;
- 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 through 6; or
- Administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures, as described in Finding 7.

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 DSP 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 Payroll 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 DOC:

- 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 $187,945,303, as quantified in the Schedule.

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

Our consideration of internal control over compliance was for the limited purpose described in the 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 DOC policies and procedures related to the payroll process to understand DOC's methodology for processing various payroll and payroll-related transactions.
- We interviewed DOC payroll personnel to understand DOC's methodology for processing various payroll and payroll-related transactions, determine the employees' level of knowledge and ability relating to payroll transaction processing, and gain an understanding of existing internal control over the payroll process and systems.
- We selected transactions recorded in the State's payroll system using statistical sampling, as outlined in the Appendix, and targeted selection based on risk factors and other relevant criteria.
- We analyzed and tested the selected transactions and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments; the accuracy of leave transactions; the 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 DOC administered and recorded them in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- We assessed the reliability of computer-processed data on payroll and payroll-related transactions by interviewing DOC 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, targeted selection, and 100 percent examination. 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 DOC did not maintain adequate and effective internal controls over its payroll process; did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; and did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

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

- DOC had inadequate segregation of duties and compensating controls over payroll transactions (see Finding 1).
- Four of the 17 (24 percent) employees whose records we examined during the audit had inappropriate access to the State's payroll system (see Finding 2).
- Timesheets were not consistently maintained for overtime pay; documentation for two of the 77 (three percent) transactions that we examined had not been retained. We identified $2,202 and projected an additional $8,497 in unsupported transactions (see Finding 3).
- Two of 51 (four percent) employees whose separation lump-sum payments we examined were overpaid by a total of $510 and three (six percent) employees were underpaid by a total of $5,750. We projected an additional $934 in overpayments and $10,535 in underpayments. We also found that DOC did not make separation lump-sum payments to

six (12 percent) employees in a timely manner. We also noted that documentation for payments to 12 (24 percent) employees had not been retained; we identified $82,694 and projected an additional $151,514 in unsupported payments (see Finding 4).

- DOC had inadequate controls to ensure that it adhered to collective bargaining agreements and state regulations limiting the accumulation of vacation and annual leave credits. This resulted in a liability for excessive vacation and annual leave balances with a value of at least $606,952 as of September 30, 2022 (see Finding 5).

- Leave credits with a value of $5,642 were not properly reduced in the leave accounting system after payments were made to one of the 77 leave buy-back transactions that we examined. We projected an additional $13,002 in unreduced leave credits (see Finding 6).

- DOC had inadequate controls to ensure that salary advances were collected in a timely manner, and administered in accordance with requirements. Three salary advances, totaling $10,359, remained outstanding for more than 90 days as of September 30, 2022 (see Finding 7).

FOLLOW-UP ON PRIOR AUDIT FINDINGS

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

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft audit report on October 29, 2025. A DOC representative responded by letter dated November 7, 2025, acknowledging the audit results. This final audit report includes DOC's response as an attachment.

RESTRICTED USE

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

Original signed by

Kimberly A. Tarvin, CPA

Chief, Division of Audits

June 29, 2026

SCHEDULE—SUMMARY OF AUDIT RESULTS

October 1, 2019, through September 30, 2022

Legend for Column 2, Method of Selection: FE = 100 percent examined; 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	17		17	EM				Finding 2
Regular pay	S	21,956	$183,644,316	77	TR	$644,129	$0	$0	
Overtime pay	S	416	425,112	77	TR	87,516	0	10,699	Finding 3

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	S	101	2,439,806	51	EM	861,447	-5,240	224,607	Finding 4
Excess vacation and annual leave	T	57	606,952	57	EM	606,952	606,952	0	Finding 5
Leave buy-back	S	257	818,758	77	TR	247,752	5,642	13,002	Finding 6
Salary advance	FE	3	10,359	3	TR	10,359	10,359	0	Finding 7
Total			**$187,945,303**			**$2,458,155**	**$617,713**	**$248,308**	

FINDINGS AND RECOMMENDATIONS

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

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

Our audit found that DOC 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. DOC failed to demonstrate that it had implemented compensating controls to mitigate the risks associated with such a deficiency. We found no indication that these functions were subjected to periodic supervisory review.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the DOC 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 7, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a material noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.

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 DOC:

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

- Develop formal procedures for performing and documenting compensating controls.

Finding 2—Inappropriate Access to the State's Payroll System

DOC lacked adequate controls to ensure that only appropriate staff members had access to the State's payroll system. DOC inappropriately allowed four employees access to the State's payroll system. If not mitigated, this control deficiency leaves payroll data at risk of misuse, abuse, and unauthorized use.

We examined the records of 17 DOC employees who had access to the State's payroll system at various times during the audit period. Of the 17 employees, four (24 percent) had inappropriate access to the State's payroll system. Specifically, DOC 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 Personnel Analyst left DOC on August 19, 2022. DOC did not request to remove the employee's access until September 8, 2022, a total of 20 days later. DOC lacked periodic review of access granted to employees to ensure compliance with the DSP Manual.

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," pages 6-7) 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 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 [the Decentralized Security Administrator] 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 DOC:

- Update access to the State's payroll system immediately after employees leave DOC, 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—Unsupported Overtime Pay

DOC lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. DOC also lacked adequate controls to ensure that timesheets were maintained to support overtime payments.

Payroll records show that DOC processed 416 overtime pay transactions, totaling $425,112, during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling $87,516. Based on our examination of these transactions, we found that DOC lacked timesheets associated with two (three percent) transactions with a value of $2,202. 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, the control deficiencies leave DOC at risk of making improper payments for overtime pay.

Statistical Sampling Results

The identified unsupported payments totaled $2,202.

We used a statistical sampling method to select the overtime pay transactions that we examined. We projected the additional unsupported payments to be $8,497. Therefore, the identified and projected unsupported payments totaled approximately $10,699.

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	$2,202
Divide by: Sample	87,516
Error rate for projection (differences due to rounding)	2.52%
Population that was statistically sampled	425,112
Multiply by: Error rate for projection	2.52%
Identified and projected unsupported payments (differences due to rounding)	10,699
Less: Identified unsupported payments	2,202
Projected unsupported payments	**$8,497**

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.

DOC’s General Retention Schedule for Payroll/Personnel Records specifies a five-year retention period for timesheets.

Recommendation

We recommend that DOC maintain supporting documentation for overtime payments pursuant to its retention policies

Finding 4—Improper, Late, and Unsupported Separation Lump-Sum Payments

DOC lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. DOC also lacked adequate supervisory review to ensure accurate and timely processing of separation lump-sum payments, and adequate controls to ensure that documentation was maintained to support separation lump-sum payments.

Payroll records show that DOC processed separation lump-sum payments, totaling $2,439,806, for 101 employees during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 51 employees who received separation lump-sum payments, totaling $861,447. Based on our examination of the payments made to these employees, we found the following errors:

- DOC overpaid two (four percent) employees by $510 and underpaid three (six percent) employees by $5,750 because payroll transactions unit staff members miscalculated the number of hours of leave credits paid.
- DOC did not make separation lump-sum payments to six (12 percent) employees in a timely manner.
- DOC could not locate supporting documents (lump-sum calculation worksheets, leave balance statements, state calendars, and timesheets) for payments, totaling $82,694, made to 12 (24 percent) employees. We could not determine the validity, accuracy, and propriety of the payments made to these employees; or the completeness and accuracy of the leave accounting records.

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

Statistical Sampling Results

The identified improper and unsupported payments have a net total of $77,454.

We used a statistical sampling method to select the employees whose separation lump-sum payments we examined. We projected an additional $934 in overpayments and $10,535 in underpayments; we also projected an additional $151,514 in unsupported payments. The projected improper and unsupported payments have a net total of $141,913. Therefore, the identified and projected improper and unsupported payments totaled a net of approximately $219,367, consisting of $1,444 in overpayments, $16,285 in underpayments, and $234,208 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	$77,454
Divide by: Sample	861,447
Error rate for projection (differences due to rounding)	8.99%
Population that was statistically sampled	2,439,806
Multiply by: Error rate for projection	8.99%
Identified and projected improper and unsupported payments, net (differences due to rounding)	219,367
Less: Identified improper and unsupported payments, net	77,454
Projected improper and unsupported payments, net	**$141,913**

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.

DOC's General Retention Schedule for Payroll/Personnel Records specifies a five-year retention period for separation lump-sum pay supporting documentation.

Recommendation

We recommend that DOC:

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

We further recommend that, to prevent improper inaccurate and untimely processing of separation lump-sum payments from recurring, DOC:

- Establish adequate controls to ensure that payments are calculated accurately;
- Establish adequate controls to ensure that payments are made in a timely manner; and

- Maintain supporting documentation for payments pursuant to its retention policies.

Finding 5—Excessive Vacation and Annual Leave Balances

DOC's leave accounting records indicate that 57 of the 616 (nine percent) employees with unused vacation or annual leave credits exceeded the limit set by collective bargaining agreements and state regulations as of September 30, 2022. These 57 employees accumulated 9,289 hours of excess vacation and annual leave, with a value of at least $606,952 as of September 30, 2022. 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.

We examined the records of all 57 employees with excess vacation or annual leave to determine whether DOC had complied with collective bargaining agreements and state regulations.

Of the 57 employees whose records we examined, none complied with collective bargaining agreements and state regulations for the following reasons:

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

We found no evidence that the DOC implemented internal controls to ensure that it adheres to collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits.

The 57 employees accumulated 9,289 hours of excess vacation and annual leave balances, with a value of at least $606,952.

If DOC 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 as of September 30, 2022 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. Collective bargaining agreements between the State and Bargaining Units 2, 9, and 10 temporarily increased the limit by 192 hours. The current agreement between the State and Bargaining Unit 9 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 DOC:

- 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 6—Inaccurate Leave Accounting for Leave Buy-Back

DOC lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. DOC also lacked adequate controls to ensure that leave credits that had been bought back were properly reduced in the State's leave accounting system.

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 DOC processed 257 leave buy-back transactions, totaling $818,758, during the audit period. We randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling $247,752. We examined these transactions to determine whether DOC complied with collective bargaining agreements and state regulations. We found that the leave balance for one employee had not been reduced in the State's leave accounting system to reflect the number of leave credits—with a total value of $5,642—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.

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

<u>Statistical Sampling Results</u>

The identified value of unreduced leave credits totaled $5,642.

We used a statistical sampling method to select the leave buy-back transactions that we examined. We projected additional unreduced leave credits with a value of $13,002. Therefore, the identified and projected unreduced leave credits have a total value of $18,644.

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 leave credits	$5,642
Divide by: Sample	247,752
Error rate for projection (differences due to rounding)	2.28%
Population that was statistically sampled	818,758
Multiply by: Error rate for projection	2.28%
Identified and projected value of unreduced leave credits (differences due to rounding)	18,644
Less: Identified unreduced value of leave credits	5,642
Projected value of unreduced leave credits	**$13,002**

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.

Recommendation

We recommend that DOC establish adequate internal controls to ensure that employee leave balances are reduced in a timely manner after leave buy-back payments are made.

Finding 7—Failure to Collect Outstanding Salary Advances

DOC lacked adequate segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1. DOC also lacked adequate controls over salary advances to ensure that advances were collected in a timely manner in accordance with state law and policies. Three salary advances, totaling $10,359, remained outstanding for more than 90 days as of September 30, 2022.

At September 30, 2022, DOC's accounting records show three outstanding salary advances, totaling $10,359. We examined these salary advances and found that all three had been outstanding for more than 90 days. The salary advances had been outstanding for an average of 578 days; the oldest uncollected salary advance was outstanding for almost three years. We noted that DOC had not initiated timely collection efforts for any of the salary advances that we examined. Salary advances are more difficult to collect after the employee leaves state service, and they may become uncollectable if not collected within three years.

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

Criteria

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

Recommendation

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

APPENDIX—AUDIT SAMPLING METHODOLOGY

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

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

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

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

The confidence level was 90.00 percent; the tolerable error rate was 5.00 percent; and the expected number of errors was 1.0 for regular pay, overtime pay, and leave buy-back, and 2.0 for separation lump-sum pay. Pursuant to the AICPA's *Audit Guide: Audit Sampling* (December 1, 2019 edition), pages 131–132, the expected number of errors planned for in a sample is derived by multiplying the expected error rate by the sample size. The expected error rate for regular pay, overtime pay, leave buy-back, and separation lump-sum pay 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 and sample details for all audit areas where statistical sampling was used:

Audit Area	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Size	Reference
Regular pay	21,956	$183,644,316	Transaction	77	
Overtime pay	416	425,112	Transaction	77	Finding 3
Separation lump-sum pay	101	2,439,806	Employee	51	Finding 4
Leave buy-back	257	818,758	Transaction	77	Finding 6

ATTACHMENT—DEPARTMENT OF CONSERVATION'S RESPONSE TO DRAFT AUDIT REPORT

California
Department of Conservation
Division of Administration

Gavin Newsom, Governor
Jennifer Lucchesi, Director

November 7, 2025

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

Dear Ms. Espilla:

RESPONSE TO DRAFT PAYROLL PROCESS AND TRANSACTIONS AUDIT

The Department of Conservation (Department), Division of Administration, Human Resources Office (HRO), takes the findings from the Payroll Audit conducted by the State Controller's Office (SCO) for the period of October 1, 2019, through September 30, 2022, very seriously. Below are the causes and the corrective actions the HRO has implemented to ensure compliance with state laws and rules regarding payroll and payroll-related expenditures.

FINDINGS #1 – Inadequate segregation of duties and lack of compensating controls over payroll transactions
Cause/Department Response:
Documents and processes were not being reviewed by a secondary reviewer before being processed.

Corrective Action:
All documents that include pay, salary determinations, range changes, appointments, and promotions are reviewed and signed off by the transactions manager before they are processed. We have a created a system where all documents that are processed are saved in a record keeping system that all transactions staff has access to.

FINDINGS #2 – Inappropriate keying access to the State's payroll system
Cause/Department Response:
Employees were not removed immediately from the State's payroll system upon separation from the department. The department was not aware of the timeframe to remove employees.

Corrective Action:
The department will now submit the PSD125A to remove departing staff the day before their last day to ensure their access is removed timely.

FINIDNGS #3 – Unsupported overtime pay
Cause/Department Response:
Timesheets that documented overtime were missing due to several factors, including the transition from paper to electronic (Tempo) timesheets, a department-wide scanning project, and the shift to a paperless system during the COVID-19 pandemic.

Corrective Action:
The department adopted an electronic payroll system (Tempo) in August 2020. All timesheets with overtime are required to have a STD682 attached to the timesheet to be submitted. The electronic timesheet retains the STD682 with the timesheet.

FINDINGS#4 – Improper, late, and unsupported separation lump-sum payment
Cause/Department Response:
Employee lump sums were overpaid/underpaid due to lack of oversight from a second level review. Pay was late as a result of documents sent to SCO to be keyed prior to holidays and weekends. HRO was unaware that weekends and holidays were included in the timeframe and the pay would be considered as late.

Corrective Action:
The transactions manager reviews and signs off on ALL lump sum calculations before they are processed. Documents are now sent to SCO to be keyed in a timely manner. Weekends and holidays are now calculated into the time frame.

FINDINGS #5 – Excessive vacation and annual leave balances

Cause/Department Response:
The department did not have Leave Balance Reduction Plans on file for 57 employees that exceeded their vacation or annual leave limit.

Corrective Action:
The department requires all employees over their vacation or annual leave cap to submit a Leave Balance Reduction Plan in the 4th quarter each year. Supervisors/Managers are responsible for ensuring their staff are adhering to their plans.

FINDINGS #6 – Inaccurate leave accounting for leave buy back

Cause/Department Response:
One employee participating in the leave buy-back program did not have their leave balance reduced in CLAS.

Corrective Action:
Since the audit period, the department has not participated in the leave buy-back program. The SCO now automatically deducts leave that is cashed out or bought back. In response, the HRO has implemented a verification process requiring specialists to confirm that the leave has been deducted. A screenshot of the LAS B16 screen, showing the deduction, must be included in the employee's buy-back packet.

FINDINGS #7 – Failure to collect outstanding salary advances

Cause/Department Response:
Three salary advances were found not to be cleared due to staff turnover and no record keeping regarding the salary advances.

Corrective Action:
The transaction manager signs all salary advance requests and has established a system for tracking the life cycle of all salary advances issued to ensure timely collection.

If you have any questions or need additional information, please contact Tara Hirst, Personnel Officer at (916) 531-3557 or at tara.hirst@conservation.ca.gov.

Sincerely,

Jennifer Lucchesi
Director