

**CALIFORNIA DEPARTMENT OF  
VETERANS AFFAIRS –  
YOUNTVILLE VETERANS HOME**

Audit Report

**PAYROLL AUDIT**

*July 1, 2018, through June 30, 2021*



**MALIA M. COHEN**  
CALIFORNIA STATE CONTROLLER

December 2024



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

December 5, 2024

Ms. Trisha Smith, Human Resources Director  
California Department of Veterans Affairs  
1227 O Street, Room 404  
Sacramento, CA 95814

Dear Ms. Smith:

This is the final report on our audit of the California Department of Veterans Affairs – Yountville Veterans Home’s payroll process and transactions for the period of July 1, 2018, through June 30, 2021. The audit was conducted pursuant to Government Code sections 12476 and 12410.

California Department of Veterans Affairs – Yountville Veterans Home management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

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

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

KAT/ac

Ms. Trisha Smith  
December 5, 2024  
Page 2 of 2

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# Audit Report

## Summary

The State Controller’s Office (SCO) audited the California Department of Veterans Affairs – Yountville Veterans Home’s (CalVet – Yountville Veterans Home) payroll process and transactions for the period of July 1, 2018, through June 30, 2021.

CalVet – Yountville Veterans Home 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 CalVet – Yountville Veterans Home did not:

- Maintain adequate and effective internal controls over certain aspects of its payroll process, as described in Findings 1 through 8;
- Process payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures in certain instances, as described in Findings 3, 4, 5, 6 and 8; or
- Administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures, as described in Finding 7.

## Background

In 1979, the State of California adopted collective bargaining for state employees. This created a significant workload increase for the SCO’s Personnel and Payroll Services Division (PPSD), as PPSD was the State’s centralized payroll processing center for all payroll-related transactions. PPSD decentralized the processing of payroll, allowing state agencies and departments to process their own payroll-related transactions. Periodic audits of the decentralized payroll processing at state agencies and departments ceased due to the budget constraints in the late 1980s.

In 2013, the California State Legislature reinstated these payroll audits to gain assurance that state agencies and departments maintain adequate internal control over the payroll function, provide proper oversight of their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

## Audit Authority

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

**Objectives, Scope,  
and Methodology**

We performed this audit to determine whether CalVet – Yountville Veterans Home:

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

The audit covered the period from July 1, 2018, through June 30, 2021. The audit population consisted of payroll transactions totaling \$162,621,949, as quantified in the Schedule.

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

- We reviewed state and CalVet – Yountville Veterans Home policies and procedures related to the payroll process to understand its methodology for processing various payroll and payroll-related transactions.
- We interviewed the CalVet – Yountville Veterans Home payroll personnel to understand its 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 database 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 CalVet – Yountville Veterans Home 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 CalVet – Yountville Veterans Home 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, judgmental selection, 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 CalVet – Yountville Veterans Home did not maintain adequate and effective internal controls over its payroll process;<sup>1</sup> 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:

- CalVet – Yountville Veterans Home had inadequate segregation of duties and a lack of compensating controls over payroll transactions (see Finding 1).
- Five of 10 (50%) employees whose records we reviewed during our audit had inappropriate access to the State’s payroll system (see Finding 2).
- Paid leave credits were not properly reduced in the State’s leave accounting system after payments of regular pay for three of 105 (3%) transactions we examined; the identified and projected unreduced paid leave credits totaled \$377,292. In addition, timesheets were not consistently maintained for regular pay. Based on our audit testing, we estimated that 5% of the timesheets associated with regular pay during the audit period were not retained (see Finding 3).

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<sup>1</sup> In planning and performing our audit of compliance, we considered CalVet – Yountville Veterans Home’s internal control over compliance with collective bargaining agreements and state laws, regulations, policies, and procedures to determine the auditing procedures that were appropriate under the circumstances for the purpose of providing a conclusion on compliance, and to test and report on internal control over compliance.

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

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

- CalVet – Yountville Veterans Home overpaid nine of 105 (9%) overtime transactions we examined and underpaid nine of 105 (9%) overtime transactions. The identified and projected overpayments and underpayments total \$177,610 and \$201,478, respectively. In addition, timesheets were not consistently maintained for overtime pay. Based on our audit testing, we estimated that 11% of the timesheets associated with overtime payments during the audit period were not retained. We identified \$9,816 and projected an additional \$979,503 in overtime payments for which the associated timesheets were not retained (see Finding 4).
- CalVet – Yountville Veterans Home overpaid 11 of 66 (17%) employees whose separation lump-sum payments we examined by a total of \$10,491 and underpaid 24 of 66 (36%) employees by a total of \$21,008; we projected the additional overpayments to be \$31,995 and underpayments to be \$64,068. In addition, supporting documentation was not consistently maintained for separation lump-sum payments. Based on our audit testing, we estimated that 6% of the supporting documentation associated with separation lump-sum payments during the audit period were not retained; we identified \$36,684 and projected an additional \$111,871 in unsupported separation lump-sum payments. Furthermore, CalVet – Yountville Veterans Home did not make separation lump-sum payments to 34 of 66 (52%) employees in a timely manner (see Finding 5).
- CalVet – Yountville Veterans Home should improve controls over excess vacation and annual leave balances. Seventy-one of CalVet – Yountville Veterans Home’s 773 employees (9%), with unused vacation or annual leave credits at October 1, 2020, had leave balances that exceeded the limit set by collective bargaining agreements and state regulations. However, CalVet – Yountville Veterans Home had adequate plans in place to reduce leave balances for 62 of the 71 (87%) employees (see Finding 6).
- CalVet – Yountville Veterans Home had inadequate controls to ensure that salary advances were collected in a timely manner, and administered in accordance with requirements. Nineteen salary advances, totaling \$21,595, remained outstanding for more than 350 days as of June 30, 2021 (see Finding 7).
- CalVet – Yountville Veterans Home had inadequate controls to ensure that holiday credit compensation was calculated correctly and granted to eligible employees. We examined 68 unusual transactions and determined that CalVet – Yountville Veterans Home granted improper holiday credit compensation, with an estimated net value of \$8,235 in 57 transactions. We projected additional improper holiday credits with a value of \$11,320. In addition, timesheets were not consistently maintained to support holiday credits granted to employees. Based on our audit testing, we estimated that 11% of the timesheets associated with holiday credit compensation during the audit period were not retained (see Finding 8).



**Follow-up on  
Prior Audit  
Findings**

We have not previously conducted an audit of CalVet – Yountville Veterans Home’s payroll process and transactions.

**Views of  
Responsible  
Officials**

We issued a draft audit report on February 14, 2024. A representative from CalVet – Yountville Veterans Home responded by letter dated February 23, 2024, acknowledging the audit results. This final audit report includes CalVet – Yountville Veterans Home’s response as an attachment.

**Restricted Use**

This audit report is solely for the information and use of CalVet – Yountville Veterans Home 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](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

December 5, 2024

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

Audit Area Tested	Method of Selection	Number of Units of Population	Dollar Amount of Population	Number of Selections Examined	Dollar Amount of Selections Examined	Net Total Dollar Amount of Identified Improper Costs	Net Total Dollar Amount of Projected Improper Costs and Identified and Projected Unsupported Costs	Finding Number
Segregation of duties	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
System access	Targeted	10	N/A	10 Employees	N/A	N/A	N/A	2
Regular pay	Statistical	33,493	\$ 142,646,041	105 Transactions	\$ 460,743	\$ 1,599	\$ 5,350,640	3
Overtime pay	Statistical	10,724	15,544,846	105 Transactions	154,237	(237)	965,688	4
Separation lump-sum pay	Statistical	231	3,411,118	66 Employees	1,618,426	(10,517)	116,482	5
Excess vacation and annual leave	Targeted	71	438,815	71 Employees	438,815	72,272	-	6
Salary advance	Judgmental	48	121,695	20 Transactions	23,195	21,595	-	7
Holiday credit	Statistical and targeted	181	68,596	68 Transactions	26,229	8,235	20,174	8
Leave buy-back	Statistical	139	315,598	63 Transactions	141,103	-	-	
Uniform allowance	Statistical	521	75,240	105 Transactions	15,350	-	-	
			\$ 162,621,949		\$ 2,878,098	\$ 92,947	\$ 6,452,984	

# Findings and Recommendations

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

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

Our audit found that CalVet – Yountville Veterans Home 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. CalVet – Yountville Veterans Home 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 CalVet – Yountville Veterans Home 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.

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

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

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

Recommendation

We recommend that CalVet – Yountville Veterans Home:

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

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

- Develop formal procedures for performing and documenting compensating controls.

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

CalVet – Yountville Veterans Home lacked adequate controls to ensure that only appropriate staff members had keying access to the State’s payroll system. CalVet – Yountville Veterans Home inappropriately allowed five employees keying access to the State’s payroll system because CalVet – Yountville Veterans Home did not immediately remove or modify keying access for the employees after the employees’ separation from state service, transfer to another agency, or change in classification. If not mitigated, this control deficiency leaves payroll data at risk of misuse, abuse, and unauthorized use.

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

We examined the records of 10 CalVet – Yountville Veterans Home employees who had keying access to the State’s payroll system at various times between July 1, 2018, and June 30, 2021. Of the 10 employees, five had inappropriate keying access to the State’s payroll system. Specifically, CalVet – Yountville Veterans Home did not immediately remove or modify keying access for the employees after the employees’ separation from state service, transfer to another agency, or change in classification. For example, a Senior Personnel Specialist left CalVet – Yountville Veterans Home on March 31, 2019; CalVet – Yountville Veterans Home did not request to remove the employee’s access until May 7, 2019 (37 days later). CalVet – Yountville Veterans Home lacked periodic review of keying access granted to employees to ensure compliance with the DSP Manual.

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 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. . . .

### Recommendation

We recommend that CalVet – Yountville Veterans Home:

- Update keying access to the State’s payroll system immediately after employees leave CalVet – Yountville Veterans Home, 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—  
Paid leave credits  
were not properly  
reduced in the  
leave accounting  
system, and  
overpayment of  
and missing  
timesheets for  
regular pay**

CalVet – Yountville Veterans Home lacked segregation of duties and compensating controls within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls to ensure that paid leave credits are reduced in the State’s leave accounting system and that timesheets are maintained to support regular pay.

Payroll records show that CalVet – Yountville Veterans Home processed 33,493 regular pay transactions, totaling \$142,646,041, between July 2018 and June 2021. Of the 33,493 transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$460,743. Based on our examination of the 105 regular pay transactions, we found that:

- CalVet – Yountville Veterans Home did not appropriately reduce the leave balances in the State’s leave accounting system for three of 105 (3%) employees to reflect the number of leave credits—with a value of \$1,219—that had been used and 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 an additional unreduced paid leave credits with a value of \$376,073.
- CalVet – Yountville Veterans Home overpaid one of 105 (1%) employees by \$380 because the payroll transactions unit staff member failed to reduce the employee’s pay for an absence in which the employee did not have enough leave balance, and paid for more hours than what the employee worked. We projected the additional overpayments to be \$117,185.
- CalVet – Yountville Veterans Home lacked timesheets associated with five of 105 (5%) regular pay transactions totaling \$15,689. 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 \$4,841,693.

If not mitigated, the control deficiencies leave CalVet – Yountville Veterans Home at risk of making improper payments for regular pay.

*Statistical sampling results*

The identified value of unreduced paid leave credits, and overpayments and unsupported payments totaled \$17,288.

We used a statistical sampling method to select the regular pay transactions that we examined. We projected the value of additional leave balances that had not been reduced to reflect the number of leave credits that had been paid; the total projected value was \$376,073. We also projected additional overpayments of \$117,185 and additional unsupported payments of \$4,841,693. The projected improper and unsupported costs totaled \$5,334,951. The identified and projected improper and unsupported costs totaled approximately \$5,352,239, consisting of \$377,292 in unreduced paid leave credits, \$117,565 in overpayments, and \$4,857,382 in unsupported payments.

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

Identified unreduced paid leave credits and improper and unsupported payments	\$ 17,288
Divide by: Sample	460,743
Error rate for projection (differences due to rounding)	<u>3.75%</u>
Population that was statistically sampled	142,646,041
Multiply by: Error rate for projection	<u>3.75%</u>
Identified and projected unreduced paid leave credits and improper and unsupported payments (differences due to rounding)	5,352,239
Less: Identified unreduced paid leave credits and improper and unsupported payments	<u>17,288</u>
Projected unreduced paid leave credits and improper and unsupported payments	<u><u>\$ 5,334,951</u></u>

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

CalVet – Yountville Veterans Home’s General Retention Schedule for Payroll/Personnel Records specifies a five-year retention period for timesheets.

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.

#### Recommendation

We recommend that CalVet – Yountville Veterans Home:

- Establish adequate controls to ensure that employee leave balances are reduced in a timely manner after payments for regular pay are made;
- Establish adequate controls to ensure that regular pay is reduced for an employee’s absence in cases where the employee did not have enough leave balance, and that the employee was paid for hours actually worked; and
- Maintain supporting documentation for regular pay pursuant to its retention policies.

#### **FINDING 4— Improper payments and missing timesheets for overtime pay**

CalVet – Yountville Veterans Home lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of overtime pay. CalVet – Yountville Veterans Home lacked adequate supervisory review to ensure accurate processing of overtime pay.

Payroll records show that CalVet – Yountville Veterans Home processed 10,724 overtime pay transactions, totaling \$15,544,846, between July 2018 and June 2021. Of the 10,724 transactions, we randomly selected a statistical sample (as described in the Appendix)

of 105 transactions, totaling \$154,237. Based on our examination of the 105 overtime pay transactions, we found that:

- CalVet – Yountville Veterans Home overpaid the employees in nine of 105 (9%) transactions by a total of \$1,762 and underpaid the employees in another nine of 105 (9%) transactions by a total of \$1,999 because payroll transactions unit staff members miscalculated overtime hours worked. In addition, CalVet – Yountville Veterans Home lacked adequate supervisory review to ensure accurate processing of overtime pay. We projected the additional overpayments to be \$175,848 and underpayments to be \$199,479.
- CalVet – Yountville Veterans Home lacked timesheets associated with 12 of 105 (11%) overtime pay transactions with a value of \$9,816. 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 were unable to ascertain why the documentation was missing. CalVet – Yountville Veterans Home should have maintained the documentation pursuant to its record retention policies. We projected the additional unsupported payments to be \$979,503.

If not mitigated, these control deficiencies leave CalVet – Yountville Veterans Home at risk of making additional improper overtime payments.

#### *Statistical sampling results*

The identified improper and unsupported payments have a net total of \$9,579.

We used a statistical sampling method to select the overtime pay transactions that we examined. We projected an additional \$175,848 in overpayments and \$199,479 in underpayments; we also projected an additional \$979,503 in unsupported payments. The projected improper and unsupported payments have a net total of \$955,872. The identified and projected improper and unsupported payments totaled a net of approximately \$965,451, consisting of \$177,610 in overpayments, \$201,478 in underpayments, and \$989,319 in unsupported payments.

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

Identified improper and unsupported payments, net	\$ 9,579
Divided by: Sample	154,237
Error rate for projection (differences due to rounding)	<u>6.21%</u>
Population that was statistically sampled	15,544,846
Multiply by: Error rate for projection	<u>6.21%</u>
Identified and projected improper and unsupported payments, net (differences due to rounding)	965,451
Less: Identified improper and unsupported payments, net	9,579
Projected improper and unsupported payments, net	<u>\$ 955,872</u>



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

CalVet – Yountville Veterans Home’s General Retention Schedule for Payroll/Personnel Records specifies a five-year retention period for timesheets.

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.

#### Recommendation

We recommend that CalVet – Yountville Veterans Home:

- 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 any overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838; and
- Properly compensate those employees who were underpaid.

We further recommend that, to prevent improper payments for overtime pay from recurring, CalVet – Yountville Veterans Home:

- Establish adequate internal controls to ensure that payments are accurate;
- 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 overtime payments pursuant to its retention policies.

#### **FINDING 5— Improper and late payments and missing supporting documentation for separation lump- sum pay**

CalVet – Yountville Veterans Home lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of employee separation lump-sum pay. CalVet – Yountville Veterans Home lacked adequate supervisory review to ensure accurate and timely processing of separation lump-sum pay.

Payroll records show that CalVet – Yountville Veterans Home processed separation lump-sum payments, totaling \$3,411,118, for 231 employees between July 2018 and June 2021. Of the 231 employees, we randomly selected a statistical sample (as described in the Appendix) of 66 employees who received separation lump-sum payments, totaling \$842,327. Based on our examination of the records of the 66 employees who received separation lump-sum payments, we found that:

- CalVet – Yountville Veterans Home overpaid 11 of 66 (17%) employees by a total of \$10,491 and underpaid 24 of 66 (36%) employees by a total of \$21,008 because payroll transactions unit staff

members miscalculated leave credits paid. In addition, CalVet – Yountville Veterans Home lacked adequate supervisory review to ensure accurate processing of separation lump-sum pay. We projected the additional overpayments to be \$31,995 and underpayments to be \$64,068.

- CalVet – Yountville Veterans Home could not locate supporting documents (lump-sum calculation worksheets, leave balance statements, state calendars, and timesheets) for payments, totaling \$36,684, made to four of 66 (6%) 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. We were unable to determine why the documentation was missing. CalVet – Yountville Veterans Home should have maintained the documentation pursuant to its record-retention policies. We projected the additional unsupported payments to be \$111,871.
- CalVet – Yountville Veterans Home did not make separation lump-sum payments to 34 of 66 (52%) employees in a timely manner.

If not mitigated, these control deficiencies leave CalVet – Yountville Veterans Home 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 totaled approximately \$26,167.

We used a statistical sampling method to select the employees whose separation lump-sum payments were examined. We projected an additional \$31,995 in overpayments and \$64,068 in underpayments; we also projected an additional \$111,871 in unsupported payments. The projected improper and unsupported payments totaled a net of approximately \$79,798. The identified and projected improper and unsupported payments totaled a net of approximately \$105,965, consisting of \$42,486 in overpayments, \$85,076 in underpayments, and \$148,555 in unsupported payments.

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

Identified improper and unsupported payments, net	\$ 26,167
Divided by: Sample	842,327
Error rate for projection (differences due to rounding)	<u>3.11%</u>
Population that was statistically sampled	3,411,118
Multiply by: Error rate for projection	<u>3.11%</u>
Identified and projected improper and unsupported payments, net (differences due to rounding)	105,965
Less: Identified improper and unsupported payments, net	<u>26,167</u>
Projected improper and unsupported payments, net	<u>\$ 79,798</u>

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

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

CalVet – Yountville Veterans Home's General Retention Schedule for Payroll/Personnel Records specifies a five-year retention period for timesheets.

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.

#### Recommendation

We recommend that CalVet – Yountville Veterans Home:

- 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 payments from recurring, CalVet – Yountville Veterans Home:

- Establish adequate controls to ensure accurate calculation of separation lump-sum payments;
- Establish procedures and an efficient process to ensure that separation lump-sum payments are made in a timely manner; and
- Maintain supporting documentation for separation lump-sum payments pursuant to its retention policies.

#### **FINDING 6— Controls should be improved over annual and vacation leave balances**

CalVet – Yountville Veterans Home's leave accounting records showed that CalVet – Yountville Veterans Home had 773 employees with unused vacation or annual leave credits at October 1, 2020. Of those employees, 71 exceeded the limit set by collective bargaining agreements and state regulations. These employees accumulated 11,777 hours of excess vacation and annual leave, with a value of at least \$438,815 as of October 1, 2020. This estimated liability does not adjust for salary rate increases and additional leave credits.<sup>2</sup> Accordingly, we expect that the amount needed to pay for this liability will be higher.

<sup>2</sup> 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

We examined the records of the 71 employees with excess vacation or annual leave to determine whether CalVet – Yountville Veterans Home complied with collective bargaining agreements and state regulations. We determined that:

- CalVet – Yountville Veterans Home could not demonstrate that, if the employees were unable to reduce their vacation and annual leave balances, it had allowed the 71 employees to maintain excess balances because of the extenuating circumstances specified in the agreements and regulations.
- CalVet – Yountville Veterans Home had no plans in place during the audit period for nine of the 71 employees to reduce leave balances below the limit. The nine employees accumulated 1,588 hours of excess vacation and annual leave balances, with a value of at least \$72,272.

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, the California Department of Human Resources directed departments to immediately suspend policies that require leave balances to be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension was in effect until the 2020 Personal Leave Program ended on June 30, 2021. As a result of this suspension, we limit our examination of vacation and annual leave balances as of October 1, 2020.

If CalVet – Yountville Veterans Home 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.

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taken time off and not separated from state service.

Recommendation

We recommend that CalVet – Yountville Veterans Home:

- 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—  
Inadequate  
controls over  
salary advances,  
resulting in failure  
to recover  
outstanding  
amounts**

CalVet – Yountville Veterans Home lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over salary advances to ensure that they were recovered in a timely manner in accordance with state law and policies. Nineteen salary advances, totaling \$21,595 remained outstanding for more than 350 days as of June 30, 2021.

At June 30, 2021, CalVet – Yountville Veterans Home's accounting records showed 48 outstanding salary advances, totaling \$121,695, including 42 balances, totaling \$100,061 that had been outstanding for more than 90 days. We judgmentally selected and examined the 20 longest outstanding salary advances, totaling \$23,195. The 20 salary advances had been outstanding for an average of 651 days, and the oldest unrecovered salary advance was outstanding for over three years. We noted that CalVet – Yountville Veterans Home had not initiated timely collection efforts for 19 of the 20 balances, totaling \$21,595. 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 CalVet – Yountville Veterans Home at risk of failing to collect further salary advances.

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

Recommendation

We recommend that CalVet – Yountville Veterans Home ensure that it recovers salary advances in a timely manner, pursuant to GC section 19838 and SAM sections 8291, 8291.1, 8293, and 8293.2.

**FINDING 8—  
Inadequate  
controls over  
holiday credit  
transactions,  
resulting in  
improper and  
unsupported  
compensation**

CalVet – Yountville Veterans Home lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of holiday credit transactions. If not mitigated, this control deficiency leaves CalVet – Yountville Veterans Home at risk of granting additional improper and unsupported holiday credits.

Leave accounting records showed that CalVet – Yountville Veterans Home processed 12,298 accrual transactions of holiday credit. Of those transactions, 181 represent transactions with an estimated value of \$68,596 that involved unusual credits.

*Improper holiday credits*

Of the 181 transactions, we determined that three transactions with an estimated value of \$1,125 involved holiday credits granted to employees during the months that had no holidays. We examined all three transactions and found that the holiday credits were improperly granted to the employees.

*Excessive holiday credit compensation*

Of the remaining 178 transactions with an estimated value of \$67,471 that involved unusual credits, we randomly selected a statistical sample (as described in the Appendix) of 65 transactions, with an estimated value of \$25,104.

Based on our examination of the holiday credit transactions, we found that 54 of the 65 transactions involved improper holiday credits, with an estimated value of \$6,708, because payroll transactions unit staff members granted the employees with holiday credits that exceeded the actual earned credits.

Of the 54 transactions that involved improper credits, we also found that six were overcompensated by an estimated value of \$555 and two were undercompensated by an estimated value of \$153 because the payroll transactions unit staff members incorrectly granted employees with holiday compensation at the time-and-a-half rate instead of the straight-time rate, or vice-versa.

*Missing timesheets*

Our examination of holiday credits found that CalVet – Yountville Veterans Home lacked supporting documentation for the remaining 11 holiday credit transactions with an estimated value of \$3,294. We could not determine the validity, accuracy, and propriety of the holiday credits granted to the employees; or the completeness and accuracy of the leave accounting records. We were unable to ascertain why the documentation was missing. CalVet – Yountville Veterans Home should have maintained the documentation pursuant to its record retention policies.

*Statistical sampling results*

The identified improper and unsupported holiday compensation for projection to the intended population totaled approximately \$10,002.

We used a statistical sampling method to select the holiday credit transactions that were examined. We projected the value of additional improper credits to be \$11,320 and unsupported credits to be \$5,560. The projected improper and unsupported credits represent a total value of \$16,880. The identified and projected improper and unsupported credits have a value of approximately \$26,882, consisting of \$18,028 in improper credits and \$8,854 in unsupported credits.

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

Identified improper and unsupported holiday credits	\$ 10,002
Divided by: Sample	25,104
Error rate for projection (differences due to rounding)	<u>39.84%</u>
Population that was statistically sampled	67,471
Multiply by: Error rate for projection	39.84%
Identified and projected improper and unsupported holiday credits (differences due to rounding)	26,882
Less: Identified improper and unsupported holiday credits	10,002
Projected improper and unsupported holiday credits	<u>\$ 16,880</u>

GC section 19853 specifies the compensation that an eligible employee is entitled to receive when required to work on a qualifying holiday. The collective bargaining agreement between the State and Bargaining Unit 1 includes similar provisions regarding holiday credit and holiday pay for represented employees.

CalVet – Yountville Veterans Home’s General Retention Schedule for Payroll/Personnel Records specifies a five-year retention period for timesheets.

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

Recommendation

We recommend that CalVet – Yountville Veterans Home:

- Conduct a review of holiday credits granted during the past three years to ensure that credits are properly supported with documentation, and complied with the collective bargaining agreement and state law; and
- Correct any improper holiday credits in the State’s leave accounting system.

We further recommend that, to prevent improper holiday credit compensation from recurring, CalVet – Yountville Veterans Home:

- Establish adequate controls to ensure that holiday credits granted are valid, and comply with the collective bargaining agreement and state law;
- Conduct periodic reviews of holiday credits to identify unusual credits and make necessary corrections in the State’s leave accounting system; and
- Maintain supporting documentation for holiday credit 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 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%; the tolerable error rate was 5.00%; and the expected error rates were 1.00 (1.25%) for separation lump-sum pay, holiday credit, and leave buy-back, and 2.00 (1.75%) for regular pay, overtime pay and uniform allowance. Pursuant to the AICPA's *Audit Guide: Audit Sampling* (December 1, 2019 edition), pages 131–132, the expected error rate is the expected number of errors planned for in the sample. It is derived by multiplying the expected error rate by the sample size. The expected number of errors in the sampling tables on pages 135–136 was rounded upward, e.g., 0.2 errors become 1.0 error. Results were projected to the intended (total) population.

Audit Area	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Size	Finding Number
Regular pay	33,493	\$142,646,041	Transaction	105	3
Overtime pay	10,724	15,544,846	Transaction	105	4
Separation lump-sum pay	231	3,411,118	Employee	66	5
Holiday credit	178	67,471	Employee	65	8
Leave buy-back	139	315,598	Transaction	63	
Uniform allowance	521	75,240	Transaction	105	

**Attachment—**  
**California Department of Veterans Affairs’ Response to**  
**Draft Audit Report**

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**DEPARTMENT OF VETERANS AFFAIRS**

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February 23, 2024

Kimberly Tarvin, CPA  
Chief, Division of Audits  
P.O.Box 942850  
Sacramento, CA 94250

Dear Ms. Tarvin:

This letter is in response to the draft report issued by the State Controller's Office (SCO) on February 14, 2024, regarding the Payroll Process Review of California Department of Veterans Affairs (CalVet) – Yountville Veterans Home for the period of July 1, 2018, through June 30, 2021. CalVet takes seriously its responsibility to ensure that effective payroll processes are in place and is committed to continually improving the process.

The following is in response to each of the findings and recommendations contained in this report:

**Finding #1 – Inadequate segregation of duties and lack of compensating controls over payroll transactions.**

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

If it is not possible to segregate payroll functions fully and appropriately, CalVet 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.

**Response:** Due to the nature of the payroll process and for efficiency, the Personnel Specialist (PS) (at any Range Level - A, B, C, D) has access to and performs the same basic tasks of inputs and outputs within the payroll process. The class specification states "This is a multirange level class, spanning entry through advanced journey levels. Incumbents assigned to Range A perform the least difficult transactions duties. Based upon the appropriate alternate range criteria, incumbents advance to Ranges B, C, and D. Under close supervision at the entry level, and under general supervision at the journey and advanced levels, and in accordance with established procedures, incumbents are assigned progressively more complex and difficult transactions duties in a variety of personnel transactions areas. Experienced incumbents in this class may provide functional guidance to lower-level staff". Based on the language in the class specification, movement through the alternate ranges and becoming more experienced, there

are certain types of transactions that are released (no required review) for PS's to complete independently.

CalVet's compensating controls continue to include:

1. A supervisor review and approval is performed on less experienced PS employees prior to inputting information into the SCO system.
2. Experienced PS employees processing complex payroll items (e.g., separations, corrective actions and Adverse Actions) receive a supervisor review.

In addition, all PS's review payroll to ensure the appropriate pay issued and will discuss any discrepancies with the supervisors.

**Recommendation:** Develop formal procedures for performing and documenting compensating controls.

**Response:** Human Resources Branch (HRB) Payroll Management developed a review process which includes the supervisors reviewing the work of the staff. HRB management met with supervisors to instruct them of the new review process and then met with payroll staff to provide the expectation to submit documents for review and approval. In addition, after several months under review and with no errors (with certain transactions), the employee may be released from review for those transactions and can key independently.

**Finding #2 – Inappropriate keying access to the State's payroll system access.**

**Recommendations:** Update keying access to the State's payroll system immediately after employees leave CalVet, transfer to another unit, or change classifications.

**Response:** The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the Headquarters (HQ) HRB, including SCO access. There is a HQ analyst assigned as the security monitor who completes documents to add, delete or revise access as necessary and submit documents to the SCO. The analyst is under the direction of the Payroll & Benefit team and the Home no longer has this function.

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

**Response:** Due to a high turnover in the Human Resources (HR) (Homes & HQ), the analyst assigned to monitor the SCO access is reviewing access on a reoccurring basis as employees are hired/separated. The access document (PSD 125A) is reviewed and signed by the Authorization - Official (currently the HR Director).

**Finding #3 – Paid leave credits were not properly reduced in the leave accounting system. and overpayment of and missing timesheets for regular pay.**

**Recommendation:** Establish adequate controls to ensure that employee leave balances are reduced in a timely manner after payments for regular pay are made.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and Memorandum of Understanding (MOU) in relations to their duties.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. HRB Management is continuously providing training to staff.

**Recommendation:** Establish adequate controls to ensure that regular pay is reduced for an employee's absence in cases where the employee did not have enough leave balances, and that the employee was paid for hours actually worked.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and MOU's in relations to their duties.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. HRB Management is continuously providing training to staff.

**Recommendation:** Maintain supporting documents for regular pay pursuant to its retention policies.

**Response:** The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allows for all timesheets to be located in one location. Since January 2022, all timesheets are uploaded to a secured shared drive and maintained, per the CalVet retention schedule (5 years). As of October 2023, Calvet has established an electronic timekeeping system that is being rolled out in multiple phases with a projected completion date of June 2024. Once an employee begins using an electronic timesheet, their timesheet will be stored in the system.

**Finding #4 – Improper payments and missing timesheets for overtime pay.**

**Recommendation:** 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.

**Response:** At this time, CalVet does not have the resources available to conduct a level of audit for the past three years. Currently, new PS are trained by their Supervisor and during the training period, overtime is reviewed prior to being keyed and verified after payment issues to ensure the overtime payment issued correctly.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. Payroll has improved in areas of standardization, streamlining, and efficiency. Currently, all staff are trained by HRB management on processing overtime and supervisors/managers review new employees work until they are released to work independently.

**Recommendation:** Recover any overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838.

**Response:** When CalVet determines that an overpayment has been made to an employee the payroll staff notifies the employee of the overpayment and provides them the opportunity to respond before taking any collection action. Employees may elect to satisfy Account Receivables (AR) by Agency collection (e.g., personal check), payroll deduction or use of leave credits as per to GC 19838.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. Payroll has improved in areas of standardization, streamlining, and efficiency. Currently, all staff have been trained on what steps to take in collecting AR's. All AR's are tracked in an excel document and staff review/update this document with collection information until the AR has been satisfied.

**Recommendation:** Properly compensate those employees who were underpaid.

**Response:** When CalVet determines that an underpayment has been made to an employee, the payroll staff will complete the required documents to correct the payments, submit to the supervisor for review, and follow appropriate steps to request a payment be issued to the employee.

**Recommendation:** Establish adequate internal controls to ensure that payments are accurate.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and MOU's in relations to their duties.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. HRB Management is continuously providing training to staff.

**Recommendation:** 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.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and MOU's in relations to their duties. Currently, new PS's are trained by their supervisor and during the training period, overtime is reviewed prior to being keyed and verified after payment issues to ensure the overtime payment issued correctly. For experienced PS, the supervisor completes periodic reviews of overtime payments to ensure the payments are keyed and issued correctly.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. HRB Management is continuously providing training to staff.

**Recommendation:** Maintain supporting documentation for overtime payments pursuant to its retention policies.

**Response:** Since January 2022, CalVet maintains supporting documents according to its retention schedule (5 years) electronically on a HR shared drive.

**Finding #5 – Improper and late payments and missing supporting documentation for separation lump-sum pay.**

**Recommendation:** 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.

**Response:** At this time, CalVet does not have the resources available to conduct a level of audit for the past three years. Currently all separation packages have a second level of review by the supervisor or the Staff Services Manager I prior to keying to ensure all lump sum payment are calculated correctly.

**Recommendation:** Recover any overpayments made to separated employees in accordance with GC section 19838 and State Administrative Manual section 8776.6, and properly compensate those employees who were underpaid.

**Response:** When CalVet determines that an overpayment has been made to an employee, the payroll staff notifies the employee of the overpayment and provides them the opportunity to respond before taking any collection actions. If there is an outstanding AR balance when an employee separates, per State Administrative Manual section 8776.6, the payroll staff can request the balance be deducted from the final Lump Sum Payment.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. Payroll has improved in areas of standardization, streamlining, and efficiency. Currently, all staff have been trained on what steps to take in collecting AR's for separating employees. All AR's are tracked in an excel document and staff review/update this document with collection information until the AR has been satisfied.

**Recommendation:** Establish adequate controls to ensure accurate calculation of separation lump-sum payments.

**Response:** The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. All separation packages, including supporting documentation, is sent to the supervisor/manager for a second level review prior to processing.

**Recommendation:** Establish procedures and an efficient process to ensure that separation lump-sum payments are made in a timely manner.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and MOU's in relations to their duties. All PS are trained by their supervisor on processes for separations and lump sum payments.

Additionally, CalVet has implemented controls that call for review of the lump-sum calculation by the supervisor/manager for all separations.

**Recommendation:** Maintain supporting documentation for separation lump-sum payments pursuant to its retention policies.

**Response:**

Since January 2022, CalVet maintains supporting documents according to its retention schedule (5 years) electronically on a HR shared drive.

**Finding #6 Controls should be improved over annual and vacation leave balances.**

**Recommendation:** 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.

**Response:** HR sends out an annual Memo regarding the Employee Leave Management (Leave Reduction Plans) that notifies supervisors/managers of employees who have or will exceed the maximum Vacation/Annual Leaves of January 1st of the following year. Supervisors/managers are required to collect a plan from employees on the list, ensure that employees meet the reduction requirements outlined in the applicable law, rule, regulation and/or MOU. Supervisors/managers are responsible for collecting the Leave Reductions Plans, submitting the forms to HR, ensuring employees are actively reducing their leave balances and monitoring leave reductions plans to ensure compliance.

CalVet also reviews the Leave Buy Back program on an annual basis to determine if the department will participate based on budget approval.

**Recommendation:** Conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively.

**Response:** HR sends out an annual Memo regarding the Employee Leave Management (Leave Reduction Plans) that notifies supervisors/managers of employees who have or will exceed the maximum Vacation/Annual Leaves of January 1st of the following year. Supervisors/managers are required to collect a plan from employees on the list, ensure that employees meet the reduction requirements outlined in the applicable law, rule, regulation and/or MOU. Supervisors/managers are responsible for collection of the Leave Reductions Plans, submitting the forms to HR and ensure employees are actively reducing their leave balances and monitoring leave reductions plans to ensure compliance.

CalVet also reviews the Leave Buy Back program on an annual basis to determine if the department will participate based on budget approval.

**Recommendation:** Participate in leave buy-back programs if the State offers such programs and funds are available.

**Response:** CalVet reviews the Leave Buy Back program on an annual basis to see if the department will participate based on budget approval.



**Finding #7 – Inadequate controls over salary advances, resulting in failure to recover outstanding amounts.**

**Recommendation:** We recommend that CalVet - Yountville Veterans Home ensure that it recovers salary advances in a timely manner, pursuant to GC section 19838 and State Administrative Manual sections 8291, 8291.1, 8293, and 8293.2.

**Response:** The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. Payroll has improved in areas of standardization, streamlining, and efficiency. CalVet has trained staff on the importance of collecting Salary Advances to ensure they are satisfied timely. All salary advances are tracked in an excel document and staff review/update this document with collection information until the salary advance has been satisfied.

**Finding #8 – Inadequate controls over holiday credit transactions, resulting in improper and unsupported compensation.**

**Recommendation:** Conduct a review of holiday credits granted during the past three years to ensure that credits are properly supported with documentation, and complied with collective bargaining agreements and state law.

**Response:** At this time, CalVet does not have the resources available to conduct a level of audit for the past three years for all Yountville employees. However, a Union requested audit was completed for 2019 - 2021 to review holiday credits for specific SEIU employees. Any necessary corrections have been made to the employees leave.

The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HR HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. Payroll has improved in areas of standardization, streamlining, and efficiency. CalVet management has trained staff of the 2 different types of Holiday Credit (HC) and the appropriate codes to use when keyed into the SCO system.

**Recommendation:** Correct any improper holiday credits in the State's leave accounting system.

**Response:** The Yountville payroll unit was decentralized to the Home during the timeframe of the audit. On or about October 2020, the payroll unit was centralized to the HQ HRB. The centralizing of payroll allowed for the needed direct supervision, communication, and training from HRB management. Payroll has improved in areas of standardization, streamlining, and efficiency. CalVet management has trained staff of the 2 different types of HC and the appropriate codes to use when keyed into the SCO system.

**Recommendation:** Establish adequate controls to ensure that holiday credits granted are valid, and comply with collective bargaining agreements and state law.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and MOU's in relations to their duties. Currently, new PS are trained by

their supervisor and during the training period, holiday credit is reviewed prior to being keyed. For experienced PS, the supervisor complete periodic reviews of holiday credit to ensure holiday is keyed correctly.

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**Recommendation:** Conduct periodic reviews of holiday credits to identify unusual credits and make necessary corrections in the State's leave accounting system.

**Response:** The PS receives training by their supervisors. The training includes a review of laws, rules, regulations and MOU's in relations to their duties. Currently, new PS are trained by their supervisor and during the training period, holiday credit is reviewed prior to being keyed. For experienced PS, the supervisor complete periodic reviews of holiday credit to ensure holiday is keyed correctly.

**Recommendation:** Maintain supporting documentation for holiday credits pursuant to its retention policies.

**Response:**  
Since January 2022, CalVet maintains supporting documents according to its retention schedule (5 years) electronically on a HR shared drive.

Thank you for the opportunity to review the findings and respond to the recommendations from the audit of the payroll processes at the California Department of Veterans Affairs (CalVet) – Yountville Veterans Home for the period of July 1, 2018, through June 30, 2021. If you have any questions or require additional information, please contact Jennifer Beardsley, Personnel Services Manager, Human Resources Branch, at (916) 651-7453.

Sincerely,

*Trisha Z. Smith*

Trisha Z. Smith  
Human Resources Director

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