

The California State Auditor released the following report today:

High Risk Update

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

BACKGROUND

In a prior report, our office identified the State's budget condition as a high-risk area and later, the State's liability associated with leave benefits as a budget issue needing further review. Because employee leave balances at June 2012 represented a large financial liability—reportedly \$3.9 billion—and could significantly impact the State's budget, we reviewed the leave accounting system and visited 14 locations. Many state entities including CSU employees, use the State Controller's Office's (state controller) electronic California Leave Accounting System (leave accounting system) to track their employees' leave benefits. Further, the California Department of Human Resources (CalHR) or the Board of Trustees of the CSU negotiate with employee organizations to determine employee benefits that also affect leave balances.

KEY FINDINGS

During our review of the leave accounting system, we noted the following:

- From 2008 through 2012, state agencies inappropriately credited their employees with nearly 197,000 erroneous leave hours with a value of more than \$6.3 million.
 - ✓ \$4.5 million worth of these errors came from state agencies entering too much time into the system for holidays. Some agencies gave employees twice the allowable amount of holiday credit when holidays fell on Saturdays and others credited their employees too many holiday hours because they misinterpreted the collective bargaining agreements.
 - ✓ Some state agencies improperly gave their employees unearned sick leave in addition to annual leave costing over \$500,000, while \$1.2 million was due to mistakes related to the State's furlough and personal leave programs—some agencies erroneously gave furlough and personal leave hours to some employees.
- The cost of these errors will increase over time as employees receive raises and promotions—the cost of the errors has risen nearly 9 percent—over \$500,000—from the time agencies initially entered the errors to December 2013.
- Unclear guidance in state law regarding when an overpayment occurs, puts the State at risk of incurring additional costs—to recover overpayments, agencies must initiate collection efforts within three years from the date it occurs.
- The leave accounting system lacks sufficient controls to prevent agencies from processing erroneous transactions.
 - ✓ It does not prevent agencies from crediting employees with more hours than is allowed for each type of leave—one department gave two employees 800 hours each of holiday credit rather than the eight hours allowed.
 - ✓ It does not generate exception reports to identify unusual or unexpected leave transactions for agencies to manually review and make corrections if needed—one employee was improperly given 1,212 hours of holiday credit instead of the appropriate eight hours.
- CalHR has not provided sufficient statewide policy on how to track leave benefits for employees who work alternate schedules and should provide additional guidance for agencies when interpreting collective bargaining agreements.

KEY RECOMMENDATIONS

We made many recommendations to several entities including the following:

- The Legislature should clarify the statute of limitations for recovering the overpayment of leave credits.
- CalHR should work with the state controller and state agencies to correct the erroneous leave hours we identified and the CSU Chancellor's Office should work with CSU campuses to take appropriate action.
- The state controller should implement additional controls in its leave accounting system to prevent the types of errors we identified and work with CalHR to update criteria to use in producing monthly exception reports.
- CalHR should provide guidance regarding the appropriate amount of leave that employees should earn each month, how to account for leave hours for employees who work alternate work week schedules, and develop guidelines and procedures requiring agencies to verify the information entered into the leave accounting system.