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January 4, 2013

Employer Code: 1733  
CalPERS ID: 3186054072  
Job Number: P11-028

Alameda Alliance for Health  
Renna Robles, Director, Human Resources  
1240 South Loop Road  
Alameda, CA 94502

Dear Ms. Robles:

Enclosed is our final report on the results of the public agency review completed for the Alameda Alliance for Health. Your agency's written response, included as an appendix to the report, indicates agreement with the issues noted in the report. We incorporated the suggested revisions from your agency's response in the final report. In accordance with our resolution policy, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker  
MARGARET JUNKER, Chief  
Office of Audit Services

Enclosure

cc: Risk and Audit Committee Members, CalPERS  
Peter Mixon, General Counsel, CalPERS  
Karen DeFrank, Chief, CASD, CalPERS  
Anthony Suine, Chief, BNSD, CalPERS

# **Office of Audit Services**



## **Public Agency Review**

### **Alameda Alliance of Health**

**Employer Code: 1733  
Job Number: P11-028**

**January 2013**

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# ALAMEDA ALLIANCE FOR HEALTH

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## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Alliance Background.....	1
Scope.....	2
Office of Audit Services Review Results .....	3
Finding 1: Pay Schedule .....	3
Finding 2: Retroactive Salary Adjustment .....	4
Finding 3: Incorrect Payrates .....	6
Finding 4: Special Compensation.....	7
Finding 5: Temporary Agency Employees.....	8
Finding 6: Reported Earnings Exceeded IRC Compensation Limit.....	9
Conclusion .....	10
CalPERS Background.....	Appendix A
Objectives .....	Appendix B
Alliance’s Written Response .....	Appendix C

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# ALAMEDA ALLIANCE FOR HEALTH

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## RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Alameda Alliance for Health (Alliance) enrolled individuals, member compensation, required retirement information and other documentation for individuals included in test samples. This review did not include a determination as to whether the Alliance is a “public agency” (as that term is used in the California Public Employees’ Retirement Law), and OAS therefore expresses no opinion or finding with respect to whether the Alliance is a public agency or whether its employees are employed by a public agency.

A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Pay schedule was not approved by the governing body and did not include the payrates for all positions.
- Retroactive salary adjustment was incorrectly reported.
- Payrate was incorrectly reported.
- Special compensation was incorrectly reported.
- Temporary/part-time employees were not enrolled in CalPERS membership.
- Reported earnings exceeded the Internal Revenue Code compensation limit.

## ALLIANCE BACKGROUND

The Alameda Alliance for Health was formed in 1994 in accordance with the Welfare and Institutions Code Section 14087.54 and is governed by a twelve-member Board of Directors. The Alliance’s mission and purpose is to develop, govern, and administer a comprehensive health care delivery system that will provide quality health care to Medi-Cal eligible residents and other populations in Alameda County. The Employee Handbook and Salary Matrices outline Alliance employees’ salaries and benefits and state the terms of employment agreed upon between the Alliance and its employees.

The Alliance contracted with CalPERS effective January 1, 1999, to provide retirement benefits for local miscellaneous employees. The Alliance provides a three year final compensation period for the coverage group.

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# ALAMEDA ALLIANCE FOR HEALTH

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All contracting public agencies, including the Alliance, are responsible for the following:

- Determining CalPERS membership eligibility for its employees.
- Enrolling employees into CalPERS upon meeting membership eligibility criteria.
- Enrolling employees in the appropriate membership category.
- Establishing the payrates for its employees.
- Approving and adopting all compensation through its governing body in accordance with requirements of applicable public meeting laws.
- Publishing all employees' payrates in a publicly available pay schedule.
- Identifying and reporting compensation during the period it was earned.
- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.
- Notifying CalPERS when employees meet Internal Revenue Code annual compensation limits.
- Ensuring the employment of a retired annuitant is lawful and reinstating retired annuitants that work more than 960 hours in a fiscal year.

## SCOPE

As part of the Board approved plan for fiscal year 2011/2012, the OAS reviewed the Alliance's payroll reporting and member enrollment processes as these processes relate to the Alliance's retirement contract with CalPERS. The review period was limited to the examination of sampled records and processes from January 1, 2009, through December 31, 2011. The on-site fieldwork for this review was conducted on April 2, 2012, through April 6, 2012. The review objectives and a summary of the procedures performed are listed in Appendix B.

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# ALAMEDA ALLIANCE FOR HEALTH

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

**Finding 1:** The Alliance reported payrates to CalPERS that failed to qualify as compensation earnable.

### ***Recommendations:***

Only compensation earnable, as defined under Government Code Section 20636 and California Code of Regulations §570.5, can be reported to CalPERS and considered in calculating retirement benefits. The Alliance must ensure that all employees' salaries are properly reviewed, authorized and approved by its Board of Governors in accordance with public meeting laws. The Alliance should also ensure that the reported payrates are set forth in a publicly available pay schedule and meets other definitional requirements of "payrate" under section 20636 and related regulations.

OAS recommends CASD work with the Alliance to determine the impact of this incorrect reporting and make adjustments to members' accounts, if necessary, pursuant to Government Code 20160. In addition, the Alliance should work with CASD to ensure that all pay schedules are approved in open meetings, available for public scrutiny and identifies the position title and payrate for every employee position.

### ***Conditions:***

OAS reviewed the pay schedules to determine whether the pay schedules were approved and adopted by its Board of Governors and payrates were properly reported to CalPERS.

OAS found that the Alliance Board of Governors approved the Alliance's budget that included a line item for employee salaries under Personnel Expense; however, the budget did not meet the definition of a pay schedule. The Chief Executive Officer's salary was approved in a closed session. A pay schedule that lists the positions and payrates for all employees should be approved and adopted by the Alliance Board of Governors in an open meeting.

### ***Criteria:***

Government Code: § 20160, § 20636(b)(1), § 20636(d)

California Code of Regulations: § 570.5

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# ALAMEDA ALLIANCE FOR HEALTH

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**Finding 2:** The Alliance did not correctly report retroactive salary adjustments to CalPERS.

***Recommendation:***

The Alliance should ensure that the correct payrates and earned periods for retroactive salary adjustments are reported to CalPERS.

OAS recommends CASD work with the Alliance to ensure that retroactive salary adjustments are correctly reported to CalPERS. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

***Condition:***

OAS found the Alliance incorrectly reported payroll reporting elements when reporting a retroactive payment for three sampled employees.

One sampled employee was paid at an hourly rate of \$160.68 during the January 1, 2010 to January 15, 2010 pay period. However, the employee changed from an hourly position to a salaried exempt position on January 10, 2010, and began receiving an hourly payrate of \$120.19. The hourly rate was not adjusted to reflect the change in payrate until the contributions for the February 1, 2010 to February 15, 2010 pay period were submitted. The \$120.19 payrate should have been reported as earned during the January 16, 2010 to January 31, 2010 pay period. In addition, a Personnel Change Notice authorized a payrate increase from an hourly rate of \$120.19 to \$124.40 effective November 24, 2010, but the Merit Pay Increase Notice for FY 2009-2010 reflected a retroactive date of August 1, 2010. A retroactive salary adjustment was reported using the November 1, 2010 to November 30, 2010 pay period. The period used to report the increase should reflect the earliest period involved in the adjustment. The retroactive salary adjustment should have been reported retroactively from August 1, 2010 to the November 30, 2010 pay period.

For two sampled employees, a Personnel Change Notice authorized an hourly payrate increase to \$65.28 and \$62.20, respectively, effective November 24, 2010. The Merit Pay Increase Notice for FY 2009-2010 indicated the merit increase pay should have been reported retroactively to August 1, 2010. A retroactive salary adjustment was reported using the November 1, 2010 to November 30, 2010 pay period. The period used to report these increases should reflect the earliest period involved in the adjustment. The Alliance should have reported these retroactive salary adjustments using the August 1, 2010 to November 30, 2010 earned period.

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# ALAMEDA ALLIANCE FOR HEALTH

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***Criteria:***

Government Code: § 20160

CalPERS Procedure Manual, page 110



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# ALAMEDA ALLIANCE FOR HEALTH

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**Finding 3:** The Alliance reported incorrect payrates.

***Recommendation:***

Only compensation earnable, as defined under Government Code Section 20636 and the corresponding regulations, can be reported to CalPERS and considered in calculating retirement benefits.

OAS recommends CASD work with the Alliance to ensure that the correct payrates are reported to CalPERS. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

***Condition:***

OAS found the Alliance incorrectly reported the payrates for five sampled employees. Specifically, the Alliance reported payrates that exceeded the maximum salary range listed on its salary matrix. The reported payrate must be the rate of pay or base pay for services rendered on a full-time basis during normal working hours pursuant to publicly available pay schedules.

***Criteria:***

Government Code: § 20160, § 20636(b)(1)

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# ALAMEDA ALLIANCE FOR HEALTH

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**Finding 4:** The Alliance reported a non-reportable item of special compensation.

***Recommendation:***

The Alliance should cease reporting merit pay increases as special compensation.

OAS recommends CASD work with the Alliance to determine the impact of this erroneous reporting and make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

***Condition:***

OAS found the Alliance erroneously reported compensation that did not meet the definition of special compensation for two sampled employees. The Alliance paid and reported \$98.11 and \$139.44, respectively, for merit pay increases in the November 16, 2011 to November 30, 2011 pay period. The merit pay increases as applied in these scenarios, did not meet the definition of the special compensation for "Incentive Pay - Bonus" because it was not for superior performance and there was no program or system in place to plan and identify performance goals and objectives.

***Criteria:***

Government Code: § 20160, § 20636(c)

California Code of Regulations: § 571(a)(1)

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# ALAMEDA ALLIANCE FOR HEALTH

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**Finding 5:** The Alliance did not enroll temporary/part-time employees in CalPERS when membership eligibility criteria were met.

***Recommendation:***

The Alliance should review and monitor hours worked in a fiscal year by temporary/part-time employees and enroll those that meet membership eligibility criteria.

OAS recommends CASD work with the Alliance to ensure employees are enrolled into membership when membership eligibility criteria are met. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

***Condition:***

The Alliance hired employees through temporary employment agencies. OAS found that the Alliance did not enroll nine sampled employees hired through a temporary employment agency who met membership eligibility criteria by working 1,000 hours in fiscal years 2009/2010 or 2010/2011.

***Criteria:***

Government Code: § 20160, § 20305(a), § 20028, § 20125

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# ALAMEDA ALLIANCE FOR HEALTH

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**Finding 6:** The Alliance reported earnings that exceeded the compensation limit established by the Internal Revenue Code.

**Recommendation:**

The Alliance should ensure that reported employee compensation for employees who became CalPERS members on or after July 1, 1996, does not exceed the annual compensation limits established by the Internal Revenue Code Section 401(a)(17). When an employee reaches the compensation limit, the Alliance should stop reporting member contributions as outlined in the CalPERS Procedures Manual.

OAS recommends CASD work with the Alliance to make all necessary compensation limit adjustments to the members' accounts pursuant to Government Code Section 20160.

**Condition:**

OAS found that the Alliance reported earnings for a sampled employee that exceeded the annual compensation limit established by the Internal Revenue Code Section 401(a)(17) for calendar year 2010. The Internal Revenue Code Section 401(a)(17) set the earnings compensation limit at \$245,000 for calendar year 2010. However, the Alliance reported earnings of \$245,435.02, which exceeds the limit set by the Internal Revenue Code by \$435.02.

Once an employee reaches the compensation limit established by the Internal Revenue Code Section 401(a)(17), the employee's earnings should be reported using contribution code 01. Additionally, no member contributions should be reported for the periods that remain in the calendar year. This reporting method allows for the employee to continue earning service credit; however, their final compensation will be capped at the limit in effect for each twelve consecutive month period used to calculate their retirement allowance.

**Criteria:**

Government Code: § 20160, § 21752.5

CalPERS Procedure Manual, page 94

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# ALAMEDA ALLIANCE FOR HEALTH

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## CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the agency's payroll records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code except as noted.

Since OAS did not review whether the Alliance is a "public agency" (as that term is used in the California Public Employees' Retirement Law), this report expresses no opinion or finding with respect to whether the Alliance is a public agency or whether its employees are employed by a public agency.

The findings and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared. This report does not constitute a final determination in regard to the findings noted within the report. The appropriate CalPERS divisions will notify the agency of the final determinations on the report findings and provide appeal rights, if applicable, at that time. All appeals must be made to the appropriate CalPERS division by filing a written appeal with CalPERS, in Sacramento, within 30 days of the date of the mailing of the determination letter, in accordance with Government Code Section 20134 and Sections 555-555.4, Title 2, California Code of Regulations.

Respectfully submitted,

Original Signed by Margaret Junker  
MARGARET JUNKER, CPA, CIA, CIDA  
Chief, Office of Audit Services

Date: January 2013

Staff: Michael Dutil, CIA, Senior Manager

Diana Thomas, CIA, CIDA, Manager

Nuntawan Camyre, Auditor

# **APPENDIX A**

## **BACKGROUND**

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# ALAMEDA ALLIANCE FOR HEALTH

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## BACKGROUND

### California Public Employees' Retirement System

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts. CalPERS Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employer's knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

# **APPENDIX B**

## **OBJECTIVES**



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# ALAMEDA ALLIANCE FOR HEALTH

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## OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the Alliance complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the Alliance's retirement benefits contracts with CalPERS were followed.

This review covers the period of January 1, 2009, through December 31, 2011. This review did not include a determination as to whether the Alliance is a "public agency" and expresses no opinion or finding with respect to whether the Alliance is a public agency or whether its employees are employed by a public agency.

## SUMMARY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the Alliance's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ Reviewed:
  - Provisions of the Contract and contract amendments between the Alliance and CalPERS
  - Correspondence files maintained at CalPERS
  - Board of Governors minutes
  - Alliance Employee Handbook (employment terms and conditions)
  - Alliance salary and wage information
  - Alliance personnel records and employee hours worked records
  - Alliance payroll information including Summary Report and CalPERS Contribution Detail Report
  - Other documents used to specify payrate, special compensation, and benefits for all employees
  - Various other documents as necessary
- ✓ Reviewed the Alliance payroll records and compared the records to data reported to CalPERS to determine whether the Alliance correctly reported compensation.

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## ALAMEDA ALLIANCE FOR HEALTH

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- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to the Alliance public salary records to determine whether base payrates reported were accurate, pursuant to publicly available pay schedules that identify the position title, payrate and time base for each position, and duly approved by the Alliance's governing body in accordance with requirements of applicable public meeting laws.
- ✓ Reviewed the Alliance's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the Alliance's enrollment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the Alliance's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the Alliance's affiliated entities to determine if the Alliance shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Alliance or by the affiliated entity.

# **APPENDIX C**

## **ALLIANCE'S WRITTEN RESPONSE**



Health care you can count on.  
Service you can trust.

November 21, 2012

Margaret Junker, Chief  
Office of Audit Services  
California Public Employees' Retirement System  
Office of Audit Services  
PO Box 942701  
Sacramento, CA 94229-2701

Employer Code: 1733  
CalPERS ID: 3186054072  
Job Number: P11-028

Dear Ms. Junker,


This letter is to provide a response per your letter dated November 6, 2012, in which you are requesting a written response from the Alameda Alliance for Health by November 27, 2012.

I have read and reviewed the draft report covering the compliance review in relation to the Alameda Alliance for Health's contract with CalPERS. The Alameda Alliance for Health agrees with the recommendations in the report and will work with CalPERS Customer Account Services Division to implement the recommendations.

Upon reading the draft report I noticed a few mistakes and, if possible, could the corrections be made when the final report is completed? On page one summarizing the Alliance's background, we are governed by 12 Board of Governors and not seven Board of Directors as noted. On page 2 under scope, the word "city" is used twice. Could this be changed since the Alameda Alliance for Health is not classified by CalPERS as a city but a local miscellaneous agency? Also under scope, is it possible to remove the phrase "health contract" and instead use retirement contract with CalPERS? The Alameda Alliance for Health does not contract with CalPERS for health benefits. Lastly on page 10, the phrase "and health records" should be removed and replaced with "payroll records."

The Alameda Alliance for Health looks forward to working with CalPERS to implement the recommendations outlined in the draft report. Please contact me at (510) 747-6248 if you have any questions or need additional information.

Sincerely,

  
Renná Robles  
Director, Human Resources