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February 16, 2012

Employer Code: 0399  
Job Number: P11-003

Aztec Shops, Ltd.  
Martha Speck, Director of Management Services  
5500 Campanile Drive  
San Diego, CA 92182

Dear Ms. Speck:

Enclosed is our final report on the results of the public agency review completed for Aztec Shops, Ltd. Your agency's written response is included as an appendix to the report. Based on your response, and the additional documents provided, we have omitted an issue pertaining to paying and reporting the value of Employer Paid Member Contributions from the final report. Your response indicates agreement with the remaining findings. 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: Finance Committee Members, CalPERS  
Peter Mixon, General Counsel, CalPERS  
Karen DeFrank, Chief, CASD, CalPERS  
Mary Lynn Fisher, Chief, BNSD, CalPERS  
Honorable Board Members, Aztec Shops, Ltd.

# **Office of Audit Services**



## **Public Agency Review**

### **Aztec Shops, LTD**

**Employer Code: 0399**  
**Job Number: P11-003**

**February 2012**

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# AZTEC SHOPS, LTD

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# AZTEC SHOPS, LTD

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## RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Aztec Shops, Ltd (Agency) enrolled individuals, member compensation, required health and retirement documentation and other documentation for individuals included in test samples. This review did not include a determination as to whether the Agency 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 Agency 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:

- A reported payrate exceeded the amount listed in the public salary schedule.
- An excluded hourly-paid employee had active membership in CalPERS.
- Unused sick leave was over-reported for a retiree.

The pertinent sections of the Government Code and California Code of Regulations for each finding are listed in Appendix C.

## AGENCY BACKGROUND

The Aztec Shops, Ltd, founded in 1932, is a not-for-profit auxiliary organized under the California State University System (CSU), governed by the Education Code of the State of California and the California Code of Regulations, and is a component unit of San Diego State University (SDSU). The primary function of the Agency is to provide supportive commercial services, principally the sale of food, books, supplies and other merchandise, on the campuses of the University. The Agency is governed by the Board of Directors which consists of the President of SDSU, appointees of the President, the President of Associated Students, and student appointees approved by the Associated Students Council. The Agency’s Employee Handbook, Wage and Benefit Policy, and Memoranda of Understanding (MOU) outline employees’ salaries and benefits and state the terms of employment agreed upon between the Agency and its employees.

The Agency contracted with CalPERS effective January 1, 1959, to provide retirement benefits for local miscellaneous employees. The Agency’s current contract amendment identifies the length of the final compensation period as twelve months. The Agency contracted with CalPERS effective June 1, 1972, to provide health benefits to all eligible employees.

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# AZTEC SHOPS, LTD

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## SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate to the Agency's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from April 1, 2008, through March 31, 2011. The on-site fieldwork for this review was conducted on July 11, 2011, through July 15, 2011. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed in Appendix B.

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# AZTEC SHOPS, LTD

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

**Finding 1:** The Agency reported a payrate that exceeded the publicly available pay schedule.

### ***Recommendations:***

The Agency should ensure that only compensation earnable, as defined under Government Code Section 20636, is reported to CalPERS. The reported payrate should not exceed the maximum payrate that is authorized and listed in a public salary schedule.

The Agency should work with the CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed.

### ***Condition:***

One sampled employee's reported payrate exceeded the payrate authorized in the publicly available salary schedule. Specifically, during the 3/11-4 sampled service period, the Agency paid and reported a monthly payrate of \$6,576.27 and bi-weekly earnings of \$3,035.20; however, the salary schedule authorized a maximum annual payrate of \$75,643.00, which equates to a maximum monthly payrate of \$6,303.58.

### ***Criteria:***

Government Code § 20630  
Government Code § 20636(b)(1)

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## AZTEC SHOPS, LTD

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**Finding 2:** The Agency erroneously continued the membership of an excluded hourly-paid employee.

***Recommendations:***

The Agency should only enroll and/or report eligible employees to CalPERS.

The Agency should work with the CalPERS CASD to ensure that excluded hourly-paid employees are not reported to CalPERS.

The Agency should work with the CalPERS CASD to assess the impact of this membership issue and determine what adjustments are needed.

***Condition:***

The Agency's contract with CalPERS excluded all employees compensated on an hourly basis. The Agency previously clarified the exclusion with CalPERS CASD as "applies to all hourly paid employees." OAS reviewed employees classified as hourly and determined the Agency properly excluded the hourly paid employees from membership with the exception of one sampled employee. Specifically, one sampled employee was previously classified as salaried and was properly enrolled and reported to CalPERS. The Agency subsequently reclassified the employee as a non-exempt hourly-paid employee, effective January 17, 2011. The reclassification to hourly caused the employee to be excluded from CalPERS membership per the Agency's contract exclusion. However, the Agency incorrectly continued to report the hourly paid employee to CalPERS as an active member.

***Criteria:***

Government Code § 20502

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## AZTEC SHOPS, LTD

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**Finding 3:** Unused sick leave was over-reported for one sampled retiree.

***Recommendations:***

The Agency should review the balances of unused sick leave that were reported to CalPERS for members that retired during the review period to ensure the balances have been correctly certified to CalPERS.

The Agency should work with CalPERS BNSD to assess the impact of this incorrect reporting and determine what adjustments are needed.

***Condition:***

The Agency over-reported a retiree's balance of unused sick leave to CalPERS. Specifically, the Agency did not initially certify any hours of unused sick leave on the retiree's Service Retirement Election Application (BSD 369 S), which was received by CalPERS on July 29, 2009. The Agency subsequently submitted a Requested Employer Certification (BSD-200) on September 29, 2009, certifying 162.03 days. However, on October 25, 2009, the retiree cashed out her balance of unused sick leave, which reduced the retiree's balance to zero. However, the Agency did not submit an amended BSD-200 to notify CalPERS that the retiree's balance of unused sick was zero.

***Criteria:***

Government Code § 20965



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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 and health records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code except as noted.

The findings and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared. Because OAS did not review whether the Authority 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 Authority is a public agency or whether its employees are employed by a public agency.

Respectfully submitted,

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

Date: February 2012

Staff: Matt Espenshade, CFE, Supervising Manager  
Michael Dutil, CIA, Senior Manager  
Alan Feblowitz, Manager  
Karen Harlan, CIA, CGAP  
Kathy Chan

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**AZTEC SHOPS, LTD**

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# APPENDIX A

## BACKGROUND

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# AZTEC SHOPS, LTD

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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 services for eligible members who apply for service or disability retirement. 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 employers' 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.

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**AZTEC SHOPS, LTD**

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# **APPENDIX B**

## **OBJECTIVES**

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# AZTEC SHOPS, LTD

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## OBJECTIVES

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

- Whether the Agency 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 Agency's retirement and health benefits contracts with CalPERS were followed.

This review covers the period of April 1, 2008, through March 31, 2011.

## SUMMARY

### Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the Agency's personnel and payroll procedures, reviewed documents, and performed the following procedures. Related sample sizes, sample periods and findings are listed.

- ✓ Reviewed:
  - Provisions of the Contract and contract amendments between the Agency and CalPERS
  - Correspondence files maintained at CalPERS
  - Agency Council minutes and Agency Council resolutions
  - Agency written labor policies and agreements
  - Agency salary, wage and benefit agreements including applicable resolutions
  - Agency personnel records and employee hours worked records
  - Agency payroll information including Summary Reports and PERS listings
  - Other documents used to specify payrate, special compensation and benefits for all employees
  - Health Benefits Program enrollment records and supporting documentation
  - Various other documents as necessary
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency reported non-reportable compensation.

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## AZTEC SHOPS, LTD

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Sample Size and Period: Reviewed 10 sampled employees covering two sampled service periods - the first service period in July 2009 (7/09-3), and the second service period in March 2011 (3/11-4).

- **No Finding**

- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to Agency public salary records to determine whether base payrates reported were accurate, properly authorized, pursuant to publicly available pay schedules that identify the position title, payrate and time base for each position, and duly approved by the Agency's governing body in accordance with requirements of applicable public meeting laws.

Sample Size and Period: Reviewed 10 sampled employees in the second service period in March 2011 (3/11-4).

- **See Finding 1:** The Agency paid and reported a payrate that exceeded the publicly available pay schedule.

- ✓ Reviewed PERS listing reports to determine whether the following payroll reporting elements were reported correctly; contribution code, pay code, work schedule code, service period, and member contributions.

Sample Size and Period: Reviewed 10 sampled employees covering two sampled service periods - the first service period in July 2009 (7/09-3), and the second service period in March 2011 (3/11-4).

- **No Finding**

- ✓ Reviewed the Agency's enrollment practices pertaining to optional members, temporary and part-time employees, retired annuitants, and independent contractors to determine whether individuals met CalPERS membership requirements.

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# AZTEC SHOPS, LTD

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## Temporary, Part-Time, and Hourly Employees:

Sample Size and Period: Reviewed five sampled employees selected from the Agency's 2010/11 Hourly Employee Roster and one employee from the Salary Test.

- **See Finding 2:** The Agency incorrectly continued the active membership of an ineligible hourly-paid employee.

## Retired Annuitants:

Sample Size and Period: Reviewed one sampled employee in the review period.

- **No Finding**

## Independent Contractors:

Sample Size and Period: No individuals met testing criteria in calendar years 2009 and 2010.

- **No Finding**

- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances.

Sample Size and Period: Reviewed two retiring members covering the review period.

- **See Finding 3:** Unused sick leave was over-reported for one sampled retiree.

- ✓ Reviewed health records to determine whether the Agency properly enrolled eligible individuals into the CalPERS Health Benefits Program.

Sample Size and Period: Reviewed five employees and their dependents covering the review period.

- **No Finding**

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**AZTEC SHOPS, LTD**

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# APPENDIX C

## CRITERIA



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# AZTEC SHOPS, LTD

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## CRITERIA

Government Code § 20502, states:

The contract shall include in this system all firefighters, police officers, county peace officers, local sheriffs, and other employees of the contracting agency, except as exclusions in addition to the exclusions applicable to state employees may be agreed to by the agency and the board. The contract shall not provide for the exclusion of some, but not all, firefighters, police officers, county peace officers, or local sheriffs. The exclusions of employees, other than firefighters, police officers, county peace officers, or local sheriffs, shall be based on groups of employees such as departments or duties, and not on individual employees. The exclusions of groups may be made by amendments to contracts, with respect to future entrants into the group. The board may disapprove the exclusion of a group, if in its opinion the exclusion adversely affects the interest of this system. Membership in this system is compulsory for all employees included under a contract. This section shall not be construed to supersede Sections 20303 and 20305.

Government Code § 20630, states, in part:

Compensation shall be reported in accordance with Section 20636 and shall not exceed compensation earnable, as defined in Section 20636.

Government Code § 20636, subdivision (b)(1), states, in part:

"Payrate" means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules.

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## **AZTEC SHOPS, LTD**

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Government Code § 20965, states:

A local miscellaneous member and a local safety member, whose effective date of retirement is within four months of separation from employment with the employer which granted the sick leave credit, shall be credited at his or her retirement with 0.004 year of service credit for each unused day of sick leave certified to the board by his or her employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member's retirement benefit. Reports of unused days of sick leave shall be subject to audit and retirement benefits may be adjusted where improper reporting is found.

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**AZTEC SHOPS, LTD**

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# APPENDIX D

## AGENCY RESPONSE

**(Agency provided an attachment to the response which is intentionally omitted from this appendix)**



SAN DIEGO STATE  
UNIVERSITY  

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AZTEC SHOPS

January 16, 2012

Ms. Margaret Junker, Chief  
CalPERS Office of Audit Services  
P.O. Box 942701  
Sacramento, CA 94229-2701

Dear Ms. Junker,

I am writing in response to your letter of December 29, 2011 detailing the recommendations from the draft report concerning Aztec Shops, Ltd and soliciting our response to these recommendations.

- With regard to finding number one, Aztec Shops disagrees with the finding and the recommendations of the report. Aztec Shops, since its inception in 1932 does not have an employee union or council and therefore does not have written labor agreements or memorandums of understanding with its employees. We do have a labor policy codified in the Aztec Shops Board of Director's Wage and Benefit policy which clearly gives the Board full authority to contract with CalPERS for this benefit. Attached for your review is the resolution submitted and accepted by CalPERS in March 1995 authorizing the reporting of EPMC as compensation.

An Offer Letter and a Benefits Summary packet are given to salaried employees at the time of their hire explaining their benefit package. It is clearly stated that Aztec Shops pays 100% of the employee contribution to CalPERS. This wage policy has been in effect since July 1 of 1981 when the Aztec Shops Board of Directors resolved and ratified such a resolution. As was stated in the audit, the Board approved and adopted a resolution for EPMC in February 1995 which was submitted and accepted by CalPERS on March 1, 1995. Hence, the report finding that "the Agency did not have a written labor policy outlining the benefit for its employees" is, de facto, erroneous.

- With regard to recommendations two through four, these are clerical errors which have resulted in no financial impact or adjustment to CalPERS and have since been corrected.

I believe that this letter sufficiently covers Aztec Shops' disagreement to the findings of the compliance review with regard to the issues in question. Should you require further clarification or have any questions regarding our response to these findings, I will be more than willing to discuss these with you at your convenience.

Sincerely,

Martha Speck  
Director Management Services

Enclosure

cc: Donna Tusack, CEO, Aztec Shops  
Sally Roush, Vice President, Business and Financial Affairs, SDSU, Secretary/Treasurer Aztec Shops Board of Directors