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December 8, 2010

Employer Code: 1387
Job Number: P09-068

Black Gold Cooperative Library System
Maureen Theobald, Executive Director
3437 Empresa Drive
San Luis Obispo, CA 93401-7355

Dear Ms. Theobald:

Enclosed is our final report on the results of the public agency review completed for the Black Gold Cooperative Library System. Your agency's written response indicates agreement with the issues noted in the report. The written response is included as an appendix to the report. As part of our resolution process, 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, CPA, CIA, CIDA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Holly Fong, Chief, EMHS, CalPERS
Administrative Council, Black Gold Cooperative Library System

Black Gold Cooperative Library System



Public Agency Review



**Employer Code: 1387
Job Number: P09-068**

December 2010

BLACK GOLD COOPERATIVE LIBRARY SYSTEM

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RESULTS IN BRIEF

We reviewed the Black Gold Cooperative Library System's (System) enrolled individuals, health and retirement contributions, member earnings and required health, retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Two sampled retirement contribution payments and one sampled summary report were not submitted timely.
- Required health enrollment forms were not maintained.
- Health contribution payments were not remitted timely.
- A required ACES User Security Agreement form was not maintained on file.

BACKGROUND

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 Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), 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.

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.

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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.

The Black Gold Cooperative Library System is composed of the public libraries of Ventura, Santa Barbara, and San Luis Obispo counties, except for Oxnard and Thousand Oaks Public Libraries. A Joint Powers Agreement under the Public Library Development Act of 1963 established the System in 1964. Its purpose is to provide a cooperative library system to improve and coordinate the public library functions of the members. On December 1, 1984, the Joint Powers Agreement was revised and amended creating the Black Gold Cooperative Library System as a separate legal entity. The governing board for the System is an administrative council consisting of the head librarian of each of the member libraries.

The System contracted with CalPERS effective December 29, 1985, to provide retirement benefits for local miscellaneous employees. The System's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The System contracted with CalPERS to provide health benefits effective January 1, 1986. During the review period, health benefits were provided to all regular and management employees.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the System's payroll reporting and enrollment processes as these processes relate to the System's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the System complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on June 7, 2010 through June 9, 2010.

The review period was limited to the examination of sampled records and processes from April 1, 2007 through March 31, 2010. To accomplish the review objectives, we performed the following:

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- ✓ Reviewed the contract and subsequent amendments the System had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the System had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the System's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the System's payroll register with the data reported to CalPERS to determine whether the System correctly reported employees' compensation.
- ✓ Reviewed the System's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the System's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the System's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the System's classification of employees to determine whether the System reported employees in the appropriate coverage groups.
- ✓ Reviewed the System's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Reviewed employees and their dependents to determine whether the System properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Reviewed health contribution payment information to determine whether the System remitted payments within the required timeframe.
- ✓ Reviewed health contribution payments to determine whether the System contributed the correct employee/employer contribution amounts.
- ✓ Determined whether the System maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|--|-----------------------|
| 1. The System may not accurately report compensation to CalPERS. | We reviewed payroll records and compensation reported to CalPERS for a sample of six employees over two service periods. The service periods reviewed were the first service period of July 2009 (7/09-3) and the second service period of March 2010 (3/10-4). We found the System accurately reported the compensation to CalPERS for the sampled employees. | None. |
| 2. The System may not report payrates in accordance with publicly available salary schedules. | We reviewed payrates in service period 3/10-4 and reconciled the payrates to the System's public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. We found all sampled payrates were properly authorized and correctly reported for the six sampled employees. | None. |
| 3. The System may not accurately report payroll elements to CalPERS. | We reviewed the payroll reporting elements for service periods 7/09-3 and 3/10-4. Our sample testing revealed that the System correctly reported the payroll reporting elements to CalPERS. | None. |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|--|--|--|
| 4. The System may fail to or did not submit payroll in a timely manner to CalPERS. | <p>We reviewed payroll information for service periods 10/07-4, 11/07-3, 11/07-4, 9/08-4, 10/08-3, and 10/08-4 to determine whether the System submitted payroll information to CalPERS within the required timeframes. Payroll information consists of CalPERS summary reports and payment of contributions. The required timeframe to submit summary reports to CalPERS is no later than 30 days after the close of the pay period. Contributions must be paid within 15 days of the close of the pay period. Our testing revealed the following:</p> <ul style="list-style-type: none">• Service period 10/07-4: The summary report was due on November 18, 2007, but was submitted on December 11, 2007; 23 days late. The payroll contributions, were due on November 3, 2007, but were dated December 13, 2007; 40 days late.• Service period 11/07-4: The summary report was submitted within the required time frame, but the payroll contributions, due on December 1, 2008, were dated December 11, 2007; 10 days late. <p>California Code of Regulations, § 565, states, "Member and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer."</p> | <p>The System should ensure that summary reports and contributions are submitted in a timely manner to CalPERS.</p> <p>The System should work with CalPERS ERSD to assess the impact of this late reporting.</p> |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|-------------------------|
| 4. The System may fail to or did not submit payroll in a timely manner to CalPERS. (continued) | California Code of Regulations, § 565.1(b), states, “For employers reporting on a pre-list method, a complete and orderly payroll report for each pay period shall be filed with the (CalPERS) System at its Sacramento office on or before 30 calendar days following the last day of the period to which it refers, or on or before 20 calendar days after mailing, by the System, of the pre-list therefor, whichever is later.” | |
| 5. The System may not enroll all eligible employees into CalPERS membership. | <p><u>Excluded Employees</u></p> <p>The contract between CalPERS and the System excluded safety employees from membership. The System did not employ safety employees.</p> <p><u>Optional Membership</u></p> <p>The System’s council members did not have optional membership rights during the review period and a review of the System’s CalPERS listing reports showed no council members were reported to CalPERS.</p> <p><u>Temporary/Part-time Employees</u></p> <p>The System employed one part-time employee during the review period. We reviewed the hours worked by the employee during fiscal year 2008/2009 and for the period</p> | None. None. None. |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|--|----------------|
| 5. The System may not enroll all eligible employees into CalPERS membership. (continued) | <p>of July 2009 through March 2010 to determine whether the employee met eligibility criteria for CalPERS membership, and, if so, was timely enrolled. We determine the employee did not meet membership eligibility and was appropriately excluded from membership.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the System's IRS 1099 Miscellaneous Income forms for calendar years 2008 and 2009 in order to identify employees that may be misclassified as independent contractors. No individuals met our testing criteria; therefore, none were selected for further review.</p> | None. |
| 6. The System may unlawfully employ retired annuitants. | We reviewed the hours worked by one retired annuitant during the 2008/2009 fiscal year. Our test results showed the retired annuitant did not exceed the 960 hour threshold. In addition, we found the annuitant properly separated from employment for more than 60 days from the date of retirement before entering employment with the System. | None. |
| 7. The System may not appropriately report members under the proper coverage group code. | Our sample testing revealed that the System reported individuals under the appropriate membership classification and coverage group code. | None. |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|--|---|
| 8. The System may not accurately report unused sick leave balances for retiring CalPERS members. | Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the System. The System had no employees retire during the review period; therefore, no further testing was necessary. | None. |
| 9. The System may not properly enroll eligible employees and their dependents in health benefits. | <p>We reviewed a sample of six employees and their dependents to determine whether the System accurately enrolled members and their eligible dependents in the CalPERS Health Benefits Program. Our sample testing revealed that the System properly enrolled eligible employees and their dependents in CalPERS Health Benefits Program, except for the following instances:</p> <ul style="list-style-type: none">• The System did not maintain the Declaration of Health Coverage forms (HB-12A) on file for the six sampled employees.• The System did not maintain Health Benefit Plan Enrollment forms (HBD-12) on file for two sampled employees who were not enrolled into health benefits. <p>The HB-12A provides information on enrollment options and consequences for non-enrollment. The HB-12A is to ensure compliance with the Health Insurance and Portability and Accountability Act (HIPAA). Effective January 1, 1998, each employee must sign the HB-12A form when they are first eligible to enroll or when they</p> | <p>The System must ensure that proper member and dependent enrollment documentation is on file at the System within 60 days from the date of our final report.</p> <p>Please send an email to: <i>HBB_Audit_Services@calpers.ca.gov</i> once the requested documentation is on file. CalPERS HBB may be contacted at (916) 795-3836, with any questions.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the System and CalPERS HBB as an appendix to our draft report.</p> |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|--|--|---|
| 9. The System may not properly enroll eligible employees and their dependents in health benefits. (continued) | <p>make any change to their health coverage. This includes open enrollment changes, changing health plans when moving, adding or deleting a dependent, or canceling health benefits. The employer must provide the HB-12A at the time the employee requests enrollment or with the HBD-12. The employer also must provide the employee a copy of the signed form and keep the original in the employee's file.</p> <p>California Code of Regulations, § 599.500(h) states, "Register not to enroll means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing not to be enrolled in a health benefits plan."</p> | |
| 10. The System may not contribute the appropriate health contribution amounts for active employees. | We reviewed the March 2010 health contribution payment for one sampled employee. We determined that the System contributed the appropriate employer contribution amount as part of the total monthly health contribution payment. | None. |
| 11. The System may not remit health contributions within the required timeframe. | We sampled the December 2008, July 2009, January 2010, and March 2010 health contribution payments to determine if the System remitted the health contributions within the required timeframe. The System remitted the sampled payments timely with exception to the January 2010 and March 2010 payments. Specifically, | The System should ensure health contribution payments are remitted no later than the 10th day of the month for which the contribution is due. |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|--|----------------|
| 11. The System may not remit health contributions within the required timeframe. (continued) | <p>the January 2010 payment was 15 days late and the March 2010 payment was 20 days late.</p> <p>Government Code, § 22899(a), states, in part, "The contributions required of a contracting agency, along with contributions withheld from salaries of its employees, shall be forwarded monthly, no later than the 10th day of the month for which the contribution is due."</p> <p>California Code of Regulations, § 599.515(b), states, "The agency shall file with the Health Benefits Division on or before the tenth day of each month such reports covering the employees and annuitants enrolled as of the first day of the month as the Board may require, and the total contributions due for each. The report shall be accompanied by payment of the total of such contributions for employees and the employer contributions due for annuitants of the agency enrolled under the program and the employer contribution for administrative costs and the Public Employees' Contingency Reserve Fund."</p> | |

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| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|--|
| 12. The System may not maintain appropriate ACES security procedures. | <p>Security procedures for the System's ACES users were reviewed to ensure reasonable security precautions were maintained and to determine if required security documents were properly completed and filed for ACES users. Reasonable precautions appeared to be in place to maintain the secrecy of the employees' passwords and user IDs. However, a copy of an Employer User Security Agreement (AESB-43) was not on file for an ACES user who had been disabled from the system within two years of the onsite review.</p> <p>The ACES User Security Agreement, states, in pertinent part, "...this form must be completed...and a copy retained at the work site of the employer in a secure location ... for two years following the deactivation or termination of the Agreement."</p> | <p>The System should ensure that ACES user security agreements are retained in a secure worksite location for the life of the Agreements and for two years following the deactivation or termination of the Agreements.</p> <p>A confidential list identifying the employee mentioned in this section of the report has been sent to the System and CalPERS ERSD as an appendix to our draft report.</p> |

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the System's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

Original Signed by Margaret Junker

Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: December 2010

Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Karen Harlan
Alan Feblowitz
Edward Fama

APPENDIX

SYSTEM'S WRITTEN RESPONSE



BLACK GOLD Cooperative Library System

3437 Empresa Drive • Suite C • San Luis Obispo, CA 93401-7355 • Phone 805.543.6082 • Fax 805.543.9487

November 17, 2010

Margaret Junker, Chief
Office of Audit Services
CalPERS
PO Box 942710
Sacramento, CA 94229-2701

Dear Ms. Junker:

Thank you for sending the draft report of your compliance review of the Black Gold Cooperative Library System's CalPERS contract.

We have reviewed the recommendations in your report and find ourselves in agreement with your findings. We will follow those recommendations from this date forward.

Sincerely,

Maureen Theobald
Executive Director