



Office of Audit Services

P.O. Box 942701

Sacramento, CA 94229-2701

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-0900, FAX (916) 795-7836

January 21, 2011

Employer Code: 1191

Job Number: P09-048

California State University, Bakersfield Foundation
Tina Williams, Benefits Officer
9001 Stockdale Highway
Bakersfield, CA 93311

Dear Ms. Williams:

Enclosed is our final report on the results of the public agency review completed for the California State University, Bakersfield Foundation. 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

California State University Bakersfield Foundation



Public Agency Review



Office of Audit Services

**Employer Code: 1191
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CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Background.....	1
Scope.....	2
Risk and Mitigation Table.....	4
Exceptions	
Risk 2: Payrate Reporting	4
Risk 8: Unused Sick Leave	8
Risk 9: Health Documentation.....	9
Conclusion	12
Foundation's Written Response.....	Appendix

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RESULTS IN BRIEF

We reviewed the California State University, Bakersfield Foundation's (Foundation) 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:

- Payrate was incorrectly reported for one individual in our sample.
- Payrates for two individuals were not reported in accordance with public salary information.
- Unused sick leave credit was not reported for one retiree.
- Required health enrollment forms were not maintained.

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. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

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 Foundation was established in 1969 as a non-profit, financially self-sufficient auxiliary organization that supports the mission of the California State University at Bakersfield through a variety of operations and services, such as federal and non-federal research and sponsored projects, commercial operations including food services (both cafeteria and vending), child care center, intercollegiate athletics, student scholarships and loans, and other services and activities. As a private non-profit corporation, a Board of Directors governs the Foundation. The principal function of the Board of Directors is to establish policies and guide the Foundation in achieving its objectives. To that end, the Foundation coordinates its operations with the operations of the campus to help enhance the educational and cultural environment of the University and the community it serves. The employee handbook outlines the employees' salaries and benefits and states the terms of employment agreed upon between the Foundation and its employees.

The Foundation contracted with CalPERS effective August 2, 1978, to provide retirement benefits for local miscellaneous employees. The Foundation's current contract amendment identifies the length of the final compensation period as three years for miscellaneous employees. The Foundation contracted with CalPERS effective May 1, 1984, to provide health benefits to all employees.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the Foundation's payroll reporting and enrollment processes as these processes relate to the Foundation's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the Foundation 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 March 1, 2010 through March 5, 2010.

The review period was limited to the examination of sampled records and processes from January 1, 2007 through December 31, 2009. To accomplish the review objectives, we performed the following:

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

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

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

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 Foundation may not accurately report compensation to CalPERS.	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of five employees during the June 2009 service period and six employees during the December 2009 service period.</p> <p>The earnings reported to CalPERS were reconciled to the Foundation's payroll records. The Foundation accurately reported compensation to CalPERS for the employees in our sample.</p>	None.
2. The Foundation may not report payrates in accordance with publicly available salary schedules.	<p>We reviewed payrates reported to CalPERS in the service period of June 2009 and reconciled the payrates to the Foundation's public salary information to determine whether payrates for a sample of five employees were properly authorized and reported to CalPERS. Our sample testing revealed the Foundation accurately reported payrates for all of the tested employees except for the following:</p>	

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The Foundation may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p><u>Payrate Incorrectly Reported</u></p> <p>The salary range for a full time cook is \$2,382.67 to \$3,387.50 per month according to the public salary schedule. The cook was earning \$1,642.50 per month for 120 hours. The Foundation correctly reported the cook's earnings of \$1,642.50, but erroneously reported the payrate as \$1,642.50. By reporting the same payrate and earnings this incorrectly posted full time service credit to the employee's account. The Foundation should have reported the full time monthly payrate and the actual part-time earnings.</p> <p><u>Payrate Not In Accordance With Publicly Available Salary Information</u></p> <p>The Foundation reported two employees' payrates above the publicly available salary schedule in the June 2009 pay period. Specifically, one employee's reported payrate was \$9,836.00; however, the salary schedule listed the maximum monthly salary as \$4,682.42 for the employee's position. The Foundation indicated that the employee's salary was increased due to anticipated fundraising commission which was added to the base payrate from March 2009 to June 2009. Therefore, the employee's payrate exceeded the publicly available salary schedule by</p>	<p>The Foundation should begin reporting employees' full time payrate and ensure that payrates are reported in accordance with publicly available salary schedules. The Foundation should review all employees and verify that the full payrate was reported accurately and in accordance with the salary schedule.</p> <p>The Foundation should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the Foundation and CalPERS ERSD as an appendix to our draft report.</p>

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The Foundation may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p>\$5,153.58 for this time period. The second employee's reported payrate was \$4,667.00 monthly; however, the salary schedule listed the maximum salary of \$4,584.00 for this employee's position.</p> <p>Government Code, § 20636 (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."</p> <p>Government Code, § 20636(d), states, "Notwithstanding any other provision of law, payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny."</p>	
<p>3. The Foundation may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS for the individuals tested during the sampled service periods of June 2009 and December 2009. Our sample testing revealed that the Foundation correctly reported the payroll information to CalPERS.</p>	<p>None.</p>

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The Foundation may not appropriately report members under the proper coverage group code.</p>	<p>Our sample testing revealed that the Foundation reported individuals under the appropriate coverage group code.</p>	<p>None.</p>
<p>8. The Foundation may not accurately report unused sick leave balances for retiring CalPERS members.</p>	<p>Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the Foundation. Our sample testing revealed that the Foundation did not report the balance of unused sick leave for the one sampled retiree.</p> <p>The retiree had 499 hours of unused sick leave prior to retirement. The Foundation should have converted the unused sick leave hours to days, and reported 62.375 days of unused sick leave for additional service credit. The Foundation did not report unused sick leave, and as a result, the retiree's service credit was understated.</p> <p>Government Code, § 20965, provides for a local miscellaneous member and local safety member, whose effective date of retirement is within four months of separation from employment, to be credited at the time of retirement with 0.004 years of service credit for each unused day of sick leave certified to the board by his employer. The certification shall report only those days of</p>	<p>The Foundation should review the unused sick leave balances of the members who retired to determine if their unused sick leave balances were properly reported to CalPERS.</p> <p>The Foundation should work with CalPERS BSND to determine the impact of this incorrect reporting and what adjustments, if any, are needed.</p> <p>A confidential list identifying the retiree mentioned in this report has been sent to the Foundation and CalPERS BSND as an appendix to our draft report.</p>

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The Foundation may not accurately report unused sick leave balances for retiring CalPERS members. (continued)</p>	<p>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.</p>	
<p>9. The Foundation may not properly enroll eligible employees and their dependents in health benefits.</p>	<p>We reviewed a sample of six employees to assess the health benefits eligibility and enrollment of the employees and their dependents. Our sample testing revealed that the Foundation properly enrolled eligible employees and their dependents in CalPERS Health Benefits Program, except for the following:</p> <p>The Foundation did not maintain copies of the Health Benefit Plan Enrollment form (HBD-12) for five of the six sampled employees, nor were copies of the Declaration of Health Coverage form (HB-12A) maintained for any of the six employees tested.</p> <p>The CalPERS Public Agency Health Benefits Procedure Manual, Page 12-01, states, in part, "The Declaration of Health Coverage (HB-12A) provides information on enrollment options and consequences for non-enrollment. The HB-12A is to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA).</p>	<p>The Foundation must ensure that the proper employee and dependent enrollment documentation is on file at the Foundation 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. The 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 Foundation and</p>

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The Foundation may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>Effective January 1, 1998, each employee must sign the HB-12A when they are first eligible to enroll or when they 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 Health Benefit Plan Enrollment (HBD-12) form. 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> <p>California Code of Regulations, § 599.500(f) states, "Enroll" means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing to be enrolled in a health benefits plan."</p>	<p>CalPERS HBB as an appendix to our draft report.</p>
<p>10. The Foundation may not contribute the appropriate health contribution amounts for active employees.</p>	<p>We reviewed the health contributions reported for November 2008, January 2009, and October 2009 for six sampled employees. We determined that the Foundation contributed the appropriate health contribution amounts as part of the employees' total monthly premium amount.</p>	<p>None.</p>

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
11. The Foundation may not remit health contributions within the required timeframe.	We determined that the Foundation remitted the health contribution payments within the appropriate timeframe.	None.
12. The Foundation may not maintain appropriate ACES security procedures.	We reviewed the security procedures for the Foundation's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users. We determined that the Foundation maintained reasonable security precautions, and properly completed and filed the required security documents.	None.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

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 Foundation'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: January 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Carol Northrup
Kesh Braeger

APPENDIX

FOUNDATION'S WRITTEN RESPONSE



CSUB Foundation

Mail Stop: 37 ADM
9001 Stockdale Highway
Bakersfield, California 93311-1022
(661) 654-2266
(661) 654-2399 FAX
www.csubfoundation.org

December 9, 2010

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

Dear Ms. Junker,

This letter is the response to the draft audit report of the California State University, Bakersfield Foundation which was received on November 19, 2010. There are three areas noted for recommendation outlined in the draft report and our response to those recommendations is as follows:

Risk Item #2 – The Foundation may not report payrates in accordance with the publicly available salary schedule.

The first observation in this area noted the incorrect reporting of the full-time payrate versus actual part-time earnings for one employee.

The Foundation concurs with this recommendation and has been reporting the correct payrate and earnings for this employee as of February 2010. The Foundation will work with CalPERS ERSD to determine what adjustments to service credit may be needed. The expected resolution date is February 28, 2011.

The second observation in this area noted the payrates were not in accordance with publicly available salary information.

The Foundation concurs with this recommendation and pursuant to Government Code §20636(d) has posted revised, publicly available salary information on our website and will continue to insure that public salary schedules are updated and made available as necessary.

Risk Item #8 – The Foundation may not accurately report unused sick leave balances for retiring CalPERS members.

The Foundation concurs with this recommendation. The retiree in question did not provide the Human Resources Office with the proper retirement form in which to document unused sick leave. We were unaware that this was a mandated benefit rather than a voluntary one. The Foundation will provide the CalPERS BSND with the required certification form so that the proper adjustment can be completed for the retiree. The expected resolution date is December 31, 2010.

Risk Item #9 -

The Foundation may not properly enroll eligible employees and their dependents in health benefits.

The Foundation concurs with this recommendation. The recommendation noted that while the Foundation properly enrolled eligible employees and dependents, the Foundation did not maintain copies of the HBD-12 and HBD-12a enrollment forms for the sampled employees. With the availability of the ACES online enrollment function, it did not seem necessary or cost-effective to continue to have the employee and the Benefits Office complete the HBD-12 Health Benefit Plan Enrollment Form with no other purpose than to be maintained in file.

We do understand that the California Code of Regulations has not been updated to reflect the changes in recent technology and will therefore, ensure that both the HBD-12 and HBD-12A are completed for all new enrollments and changes going forward. The Foundation is working to collect the required forms for all current enrollees and it is anticipated this will be completed by January 31, 2011.

We appreciate the efforts of the Office of Audit Services to insure compliance in relation to the California State University, Bakersfield Foundation's contract with the California Public Employees' Retirement System (CalPERS). If you have any questions, please call me at (661) 654-3205.

Sincerely,



Tina Williams
Benefits Officer

cc: Michael A. Neal, Vice President, Business and Administrative Services
Beverly Byt, Foundation Executive Director
Doug Wade, Interim Foundation Manager
Kellie Garcia, Director of Human Resources