

Office of Audit Services



Public Agency Review

San Mateo County Schools Insurance Group

**Employer Code: 1288
CalPERS ID: 4600042471
Job Number: P13-053**

June 2014



California Public Employees' Retirement System
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June 6, 2014

Employer Code: 1288
CalPERS ID: 4600042471
Job Number: P13-053

San Mateo County Schools Insurance Group
Cathy Reineke, Executive Director
1791 Broadway
Redwood City, CA 94063

Dear Ms. Reineke:

Enclosed is our final report on the results of the public agency review completed for the San Mateo County Schools Insurance Group (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the 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: Board of Directors, San Mateo County Schools Insurance Group
Risk and Audit Committee Members, CalPERS
Gina M. Ratto, Interim General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Scope.....	1
Office of Audit Services Review Results	2
1: Pay schedule.....	2
2. Payroll Information	4
3: Special Compensation	5
4. Retired Annuitant.....	6
5: Membership Eligibility.....	8
Conclusion	9
Objectives	Appendix A
Agency's Written Response.....	Appendix B

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

RESULTS IN BRIEF

The primary objective of our review was to determine whether San Mateo County Schools Insurance Group (Agency) complied with applicable sections of the California Government Code, California Code of Regulations (CCR) and its contract with the California Public Employees' Retirement System (CalPERS).

The Office of Audit Services (OAS) noted the following findings during the review. Details are noted in the Results section beginning on page two of this report.

- Pay schedule did not meet all of the requirements of the CCR.
- The Agency reported incorrect payroll information.
- The Agency did not correctly report special compensation as required.
- Retired annuitants' employment did not comply with Government Code requirements.
- The Agency did not maintain the necessary records to determine membership eligibility for a part-time employee.

OAS recommends the Agency comply with applicable sections of the California Government Code, CCR and its contract with CalPERS. We also recommend the Agency work with the appropriate CalPERS divisions to resolve issues identified in this report.

SCOPE

The Agency contracted with CalPERS effective August 1, 1981 to provide retirement benefits for local miscellaneous employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and by the Public Employees Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the Board approved plan for fiscal year 2013/2014, the OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate to the Agency's retirement contract with CalPERS. The review period was limited to the examination of sampled employees, records, and pay periods from July 1, 2010 through June 30, 2013. The on-site fieldwork for this review was conducted from November 13, 2013 through November 14, 2013. The review objectives and a summary of the procedures performed are listed in Appendix A.

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's pay schedule did not meet all the requirements of the CCR.

Condition:

The Agency's 2012/13 pay schedule was not approved and adopted by the Agency's governing body in accordance with requirements of applicable public meeting laws and did not identify position titles for every employee position, specifically the Safety Training Officer position. Only compensation earnable as defined under Government Code section 20636 and corresponding regulations can be reported to CalPERS and considered in calculating retirement benefits. For purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. Per CCR section 570.5, a pay schedule, among other things, must:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws.
- Identify the position title for every employee position.
- Show the payrate as a single amount or multiple amounts within a range for each identified position.
- Indicate the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually.
- Be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's internet website.
- Indicate an effective date and date of any revisions.
- Be retained by the employer and available for public inspection for not less than five years.
- Not reference another document in lieu of disclosing the payrate.

Recommendation:

The Agency should ensure its publicly available pay schedule meets all requirements of CCR section 570.5.

The Agency should work with CalPERS Customer Account Services Division (CASD) to determine the impact of this incorrect reporting and determine what adjustments, if any, are needed to active and retired member accounts pursuant to Government Code section 20160.

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Criteria:

Government Codes: § 20160, § 20636 (a), § 20636 (b)(1), § 20636 (d)
CCR: § 570.5

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

2: The Agency reported incorrect payroll information.

Condition:

The Agency reported incorrect scheduled full-time hours for its employees. Specifically, the Agency incorrectly reported 40 hours as the full-time work week of four employees during the pay period ending June 30, 2013. The Agency's labor policy identified full-time hours as 37.5 hours per week.

Recommendation:

The Agency should ensure the schedule hours per week reported to CalPERS reflect the normal full-time work schedule for employees.

The Agency should work with CASD to make any necessary adjustments to member accounts pursuant to Government Code section 20160.

Criteria:

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

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3: The Agency did not correctly report special compensation as required.

Condition:

The Agency incorrectly reported special compensation of Longevity Pay with base payrate and earnings for two employees in pay period ending June 30, 2013. Because Longevity Pay meets the requirements of special compensation in accordance with the CCR section 571, it should be reported to CalPERS separate from base payrate and regular earnings.

Recommendation:

The Agency should report items of special compensation as separate entries and separate from base payrate and regular earnings.

The Agency should work with CASD to determine the impact of this incorrect reporting and make any necessary adjustments to active and retired member accounts pursuant to Government Code section 20160.

Criteria:

Government Codes: § 20160, § 20636 (a), § 20636 (b)(1), § 20636 (c),
CCR: § 571

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

4: Retired annuitants' employment did not comply with Government Code requirements.

Condition:

The Agency paid three retired annuitants a salary that exceeded the rate of pay of other employees performing comparable duties. The retired annuitants were employed to perform administrative duties comparable to the Administrative Assistant, services comparable to the Executive Director, and duties comparable to the Controller position. These retired annuitants' hourly payrate exceeded the salaries of comparable positions. Government Code specifies that the compensation for the appointment shall not exceed the maximum monthly base salary paid to other employees performing comparable duties as listed on a publicly available pay schedule, or its hourly equivalent.

Recommendation:

Government Code section 21220 addresses the conditions and consequences of unlawful employment of a person who has been retired under this system. The Government Code states that any retired member employed in violation of this article shall reimburse this system for any retirement allowance received during the period or periods of employment that are in violation of law, pay to this system an amount of money equal to the employee contributions that would otherwise have been paid during the period or periods of unlawful employment plus interest thereon and contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the member is determined by the executive officer to be at fault.

The Government Code also states that any public employer that employs a retired member in violation of this article shall pay to this system an amount of money equal to employer contributions that would otherwise have been paid for the period or periods of time that the member is employed in violation of this article, plus interest thereon and contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the employer is determined by the executive officer of this system to be at fault.

The Agency should monitor the hours worked and payrate of retired annuitants in order to ensure the Agency complies with applicable Government Codes. OAS recommends the Agency work with CalPERS Benefit Services Division (BNSD) to determine the appropriate course of action.

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

Criteria:

Government Codes: § 20160, § 21202, § 21220, § 21221 (h), § 21224, § 7522.56 (d)

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

5: The Agency did not maintain the necessary records to determine membership eligibility for a part-time employee.

Condition:

The Agency did not provide information deemed necessary to determine if a part-time employee met membership eligibility. The Agency provided an employee roster that indicated the employee worked a total of 900 hours in fiscal year 2011/12 and 2012/13. However, the Agency did not provide sufficient documentation to determine the number of hours worked by the employee. As required by Government Code section 20222.5, the Agency is required to provide information deemed necessary by CalPERS to determine membership eligibility.

Recommendation:

The Agency should work with CASD and provide supporting documentation in order to determine membership eligibility.

Criteria:

Government Codes: § 20221, § 20222.2, § 22797

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix A. 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.

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Alan Feblowitz, CFE, Manager
Noah Schreier, Auditor

APPENDIX A

OBJECTIVES

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

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 CCR.
- Whether prescribed reporting and enrollment procedures as they relate to the Agency's retirement contract with CalPERS were followed.

This review covers the period of July 1, 2010 through June 30, 2013. This review did not include an assessment as to whether the Agency is a "public agency", and 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.

SUMMARY

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.

- ✓ Reviewed:
 - Provisions of the contract and contract amendments between the Agency and CalPERS
 - Correspondence files maintained at CalPERS
 - Agency Board minutes and Agency Board 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 Contribution Detail Transaction History reports
 - Other documents used to specify payrate, special compensation, and benefits for all employees
 - Various other documents as necessary
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency correctly reported compensation.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to Agency 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 Agency's governing body in accordance with requirements of applicable public meeting laws.

SAN MATEO COUNTY SCHOOLS INSURANCE GROUP

- ✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the Agency's employment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the Agency's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the Agency's affiliated entities to determine if the Agency shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Agency or by the affiliated entity.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

APPENDIX B

AGENCY'S WRITTEN RESPONSE

NOTE: An attachment to the Agency's response was intentionally omitted from this appendix.



SAN MATEO COUNTY SCHOOLS
INSURANCE GROUP
— A Public Entity —

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Redwood City, CA 94063
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May 12, 2014

Margaret Junker, Chief
California Public Employees' Retirement System
Office of Audit Services
P.O. Box 94270
Sacramento, California 94229-2701

RE: Compliance Review

Employer 1288
CalPERS ID: 4600042471
Job Number: P13-053

Ms. Junker,

Thank you for your review of our CalPERS compliance. Our goal is to be in compliant and your review was very informative. I took over as Executive Director July 1, 2012 and we had a new contract CFO start that same date, replacing one that was here for over thirteen years. We inherited certain practices and record keeping and have worked to improve and look forward to the opportunity to bring the policies and practices up to the CalPERS requirements.

The following pages articulate our responses to your findings.

Sincerely,

A handwritten signature in cursive script that reads "Cathy Reineke".

Cathy Reineke
Executive Director

Summary of findings and our responses

1. The Agency's pay schedule did not meet all of the requirements of the CCR.

Recommendation:

The agency should ensure its publicly available pay schedule meets all requirements of CCR section 570.5

The Agency should work with Customer Account Services Division (CASD) to determine the impact of this incorrect reporting and determine what adjustments, if any, are needed to active and retired member accounts pursuant to Government Code section 20160.

Agency response:

We are in agreement with the finding and have made the recommended changes in the schedule and the approval process. Please find attached a copy of the current approved pay schedule meeting this requirement.

2. The Agency reported incorrect payroll information

Recommendation:

The agency should ensure the schedule of hours per week reported to CalPERS reflect the normal full-time work schedule for employees.

The Agency should work with Customer Account Services Division (CASD) to determine make any necessary adjustments to member accounts pursuant to Government Code section 20160.

Agency Response:

We agree with the finding and have corrected the reporting going forward. We will work with the CASD to review the impact and the necessity of updating past hours reported to CalPERS.

We discussed the hour differences with CASD and since the hours worked 37.5 per week versus reported 39.92 and 40.00 per week did not impact the service credit year minimum of 1720 hours, we believe there is no adverse impact on the past reporting for the service credit.

3. The Agency did not correctly report special compensation as required

Recommendation:

The Agency should report items of special compensation as separate entries and separate from base pay rate and regular earnings.

The Agency should work with Customer Account Services Division (CASD) to determine make any necessary adjustments to member accounts pursuant to Government Code section 20160.

Agency Response:

We agree with the finding and have corrected the reporting going forward. We will work with the CASD to review the impact and the necessity of updating past hours reported to CalPERS.

We reviewed the reporting and determined that the total compensation reported included the special compensation and we contributed the employer and employee contribution on the total regular and special compensation. The special compensation that was not reported separately was Longevity Pay, this pay is considered as part of the employee final pay for purposes of the retirement pay rate and is considered subject wages. Although not reported separately, we believe the past error did not adversely affect the total contribution or the future benefit calculation. As discussed above we have corrected the reporting going forward.

4. Retired annuitants; employment did not comply with the Government Code requirements.

Recommendation:

Government Code section 21220 addresses the conditions and consequences of unlawful employment of a person who has been retired under this system. The Government Code states that any retired member employed in violation of this article shall reimburse this system for any retirement allowance received during the prior or periods of employment that are in violation of law, pay to this system an amount of money equal to the employee contributions that would otherwise have been paid during the period or periods of unlawful employment plus interest thereon and contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the member is determined by the executive officer to be at fault.

The Government Code also states that any public employer that employs a retired member in violation of this article shall pay to this system an amount of money equal to employer contributions that would otherwise have been paid for the period or periods of time that the member is employed in violation of this article, plus interest thereon and contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the employer is determined by the executive officer of this system to be at fault.

The agency should monitor the hours worked and pay rate of retired annuitants in order to ensure the Agency complies with applicable Government Codes. OAS recommends the agency work with CalPERS Benefit Services Division (BNSD) to determine the appropriate course of action.

Agency Response:

We agree with the finding. We now aware of this requirement and will apply it in the future. The agency was in transition with three out of the five employees retiring in a short period. The Executive Director at the time entered into agreements for the short-term contracts that would provide that necessary bridge of service to transition to new staff or consultants and to ensure that valuable institutional knowledge is not lost. These pay rates were for the transition and to provide for those staff to be on call later for special assistance and were not for regular ongoing services. If we have such a circumstance in the future we will ensure that the pay rates are in accordance with the approved salary schedule.

5. The Agency did not maintain the necessary records to determine membership eligibility for a part-time employee.

Recommendation:

The agency should work with the CASD and provide supporting documentation in order to determine membership eligibility.

Agency Response:

We agree however, based on our working knowledge of the staff duties and working schedule we are certain he did not exceed the annuitant limit of 960 hours per year. The staff person filled a part-time position handling specialized training for school safety. He set his own appointments with member school districts. He was over eighty-years old at the time and worked two days per week. We terminated his position effective June 30, 2013.

We are now aware of the documentation requirements and if or when a similar situation arises, we will document the hours as required.