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September 9, 2010

Employer Code: 5285-5540  
Job Number: P09-046

California Conservation Corps  
Erin Healy, Administrative Services Division Chief  
1719 24<sup>th</sup> Street  
Sacramento, CA 95816

Dear Ms. Healy:

Enclosed is our final report on the results of the state agency review completed for the California Conservation Corps. Your department'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  
Cindy Domasky, Transactions Supervisor, California Conservation Corps

# California Conservation Corps



## Public Agency Review



**Office of Audit Services**

**Employer Code: 5285-5540  
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**September 2010**

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# CALIFORNIA CONSERVATION CORPS

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# CALIFORNIA CONSERVATION CORPS

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## RESULTS IN BRIEF

We reviewed the California Conservation Corps' (Department) enrolled individuals, 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:

- One retired annuitant exceeded the 960 hour threshold in a fiscal year.
- Required health benefit documentation was not on file for three members in our sample.
- Required ACES Employer User Security Agreements and Delete ACES Users Access Forms were not on file for eleven ACES users.

## 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.

State members include state miscellaneous, highway patrol, state safety, state industrial and state peace officer/firefighter (POFF) members. California Government Code (GC), § 20370 through § 20445, provides detailed definitions for these classifications. These classifications denote different retirement benefit formulas, which include: 2% at age 55 for state miscellaneous or industrial members (GC § 21354.1); 3% at age 50 for state patrol members (GC § 21362.2); 2.5% at age 55 for state safety members (GC § 21369.1); 3% at age

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55 for POFF and local safety members (GC § 21363.1); and, 3% at age 50 for POFF members (GC § 21363.4 and § 21363.8).

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.

Unlike contracting agency retirement benefit program operations, state agencies do not report member enrollment and monthly payroll data to CalPERS. Instead, each state agency inputs membership and payroll information with special designated codes into the Personnel Information Management System (PIMS) through Personnel Action Request forms. PIMS contains official personnel, payroll, and retirement information for state employees. The State Controller's Office (SCO) has the responsibility for maintenance and security of PIMS.

In accordance with the SCO's published Personnel Action Manual and Payroll Procedures Manual, state agencies input necessary personnel and payroll changes into PIMS. The system automatically passes data fields that are necessary for retirement benefit calculations to CalPERS via CalPERS' Transaction Log. The data from PIMS updates the appropriate CalPERS application systems, such as the Contribution Reporting System, Retirement Information Benefit System and CalPERS Online Member and Employer Transaction System. One critical data element passed on from state agencies to CalPERS, via the SCO, is the employee's Retirement Account Code (RAC). The RAC is a one or two digit alpha or numeric code used by PIMS to designate an employee's retirement status. During system updates from SCO to CalPERS, the RAC for each employee is converted to a coverage group code, which is significant for determining retirement contribution levels while the employee is active and the retirement formula when the employee is applying for retirement.

In general, when changes are mandated by law or contract, without the need for state agencies to prepare payroll change documents, payroll changes may be made automatically by the SCO. However, each agency has full responsibility for preparing accurate Personnel Action Request forms, employee attendance reports, and selecting appropriate compensation codes. California State Civil Service Pay Scales are published by the Department of Personnel Administration. The SCO's Payroll Procedures Manual, at Section G 105, outlines miscellaneous special compensation payment processing methods and whether they are subject to CalPERS for the purpose of retirement calculation.

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The SCO also has the responsibility for processing the health care contribution amounts for state employees and state agencies. Based on the information contained in PIMS, the SCO identifies and remits the state's contribution and the amounts authorized by employees and annuitants to be deducted from their salaries or retirement allowances for payment of contributions.

The California Conservation Corps is a California government department under the state cabinet-level California Resources Agency. The Department is a work development program specifically for men and women between the ages of 18 and 25 and provides trained work crews in all regions of California for projects that include emergency response (flood, fires and earthquakes), energy conservation and retrofitting, landscape management, trail building, tree planting and wildlife habitat restoration.

The Department, created by Governor Jerry Brown on July 7, 1976, was modeled after the federal Civilian Conservation Corps that existed during the New Deal in the 1930s. Brown's successor, George Deukmejian, signed legislation eliminating the Department's sunset clause thereby establishing a permanent department under the California Resources Agency in 1983.

Since 1976, more than 100,000 young men and women have been a part of the Department and have provided more than 9.3 million hours of emergency response on nearly every major natural disaster in California. In 2008 alone, corps members devoted more than a half-million hours to fire response, and also fought floods and pest infestations.

### **SCOPE**

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the Department's payroll reporting and enrollment processes as these processes relate to the Department's health and retirement mandates with CalPERS. The objective of this review was limited to the determination that the Department 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 February 16 and 17, 2010.

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

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- ✓ Reviewed the mandated requirements the Department had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the Department had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the Department's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions for sampled employees and compared the Department's payroll information with the data reported to CalPERS to determine whether the Department correctly reported employees' compensation.
- ✓ Reviewed the Department's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the Department'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 Department's classification of employees to determine whether the Department reported sampled employees in the appropriate coverage groups. The RAC, which is entered by the Department into the SCO system, is converted to the coverage group code when the information is reported to CalPERS.
- ✓ Reviewed the Department's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Reviewed employees and their dependents to determine whether the Department properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Determined whether the Department 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
<p>1. The Department may not accurately report compensation to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of 18 employees over two service periods. The service periods reviewed were October 2008 (10/08-0) and October 2009 (10/09-0).</p> <p>We determined the Department accurately reported compensation to CalPERS for the employees in our sample.</p>	<p>None.</p>
<p>2. The Department may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS and reconciled the payrates to the Department of Personnel Administration's public salary information for 18 sampled employees to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS.</p> <p>We determined the Department paid and properly reported salaries pursuant to the authorized published salary information.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The Department may not enroll all eligible employees into CalPERS membership.</p>	<p>The Department did not employ temporary/part-time employees during the review period. No instances of incorrect enrollment practices were identified.</p>	<p>None.</p>
<p>4. The Department may unlawfully employ retired annuitants.</p>	<p><u>Maximum Hours Threshold</u></p> <p>We reviewed the hours worked by five retired annuitants in fiscal years 2007/2008 and 2008/2009. Our sample testing revealed that one retired annuitant exceeded the 960 hour threshold in fiscal year 2008/2009 and was not reinstated.</p> <p>We also determined that the Department did not request information as to whether reappointed retired annuitants received unemployment insurance compensation during the 12-month period prior to a second or subsequent appointment. As an informational item, we suggested the Department implement a procedure to obtain this information.</p> <p>Government Code, § 21224, states, in part, "(a) A retired person may serve without reinstatement from retirement or loss or interruption of benefits provided by this system upon appointment by the appointing power of a state agency or public agency employer either during an</p>	<p>The Department should monitor the hours worked for all retired annuitants.</p> <p>The Department should work with CalPERS BNSD to identify the impact of the unlawful employment and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individual mentioned in this section of the report has been sent to the Department and CalPERS BNSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The Department may unlawfully employ retired annuitants. (continued)</p>	<p>emergency to prevent stoppage of public business or because the retired employee has skills needed in performing work of limited duration. These appointments shall not exceed a total for all employers of 960 hours in any fiscal year....(b)(1) This section shall not apply to any retired person otherwise eligible if during the 12-month period prior to an appointment described in this section the retired person received any unemployment insurance compensation arising out of prior employment subject to this section with the same employer. (2) A retired person who accepts an appointment after receiving unemployment insurance compensation as described in this subdivision shall terminate that employment on the last day of the current pay period and shall not be eligible for reappointment subject to this section for a period of 12 months following the last day of employment.”</p> <p><u>Bona Fide Separation</u></p> <p>We determined that a bona fide separation from employment, per Government Code, § 21220.5, was not needed as the sampled retired annuitants’ ages were beyond the normal retirement age upon providing services to the Department.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The Department may not appropriately report members under the proper coverage group code.</p>	<p>We examined the appropriateness and accuracy of the assigned retirement account codes (RACs) by testing a sample of nine members representing five types of RACs used by the Department. We reviewed each sampled member's RAC and verified whether the coverage group was consistent with the information in the CalPERS database. We determined the Department accurately assigned RACs in accordance with SCO's Personnel Action Manual and CalPERS' State Handbook for each sampled member.</p>	<p>None.</p>
<p>6. The Department may not accurately certify unused sick leave balances for retiring CalPERS members.</p>	<p>We reviewed the unused sick leave balances for a sample of four retirees to determine whether the Department properly computed and reported the balances. We determined the Department accurately certified retiring members' unused sick leave balances to CalPERS.</p>	<p>None.</p>
<p>7. The Department may not properly enroll eligible employees and their dependents in health benefits.</p>	<p>We reviewed a sample of five employees to assess the health benefits eligibility and enrollment of employees and their dependents. Our sample testing revealed the Department properly enrolled eligible employees and their dependents in CalPERS Health Benefits Program, except for the following:</p> <p>The Department did not have the required Declaration of Health Coverage (HB-12A) form on file for three sampled</p>	<p>The Department should ensure that the proper member and dependent enrollment documentation is on file.</p> <p>A confidential list identifying the individuals mentioned in this section of the report was sent to the Department and CalPERS</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The Department may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>employees. However, during the on-site field work, the Department completed and filed the HB-12A forms for the three employees.</p> <p>The HB-12A provides information on enrollment options and consequences for non-enrollment and helps ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA).</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 when 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>HBB as an appendix to our draft report.</p>
<p>8. The Department may not maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the Department's ACES users to determine whether reasonable security precautions were maintained and whether the required security documents were properly completed and filed for ACES users.</p>	<p>The Department should work with CalPERS ERSD to ensure that ACES Employer User Security Agreements and Delete ACES Access forms are</p>

## CALIFORNIA CONSERVATION CORPS

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The Department may not maintain appropriate ACES security procedures. (continued)</p>	<p>We determined the Department practiced reasonable security procedures to protect passwords and unauthorized access to ACES. However, the Department did not maintain the ACES forms on file for eleven active/inactive ACES users. Specifically, the Department did not maintain Employer User Security Agreements (AESD-43) for six active ACES users and four inactive ACES users. In addition, the Department did not complete and submit a Delete ACES User Access (AESD-42) form for one user who no longer required access to ACES. During the on-site field work, the Department provided copies of the AESD-43 for six active ACES users and a copy of the AESD-42 for the one user who no longer required ACES access.</p> <p>CalPERS ACES User Guide, page 107, requires the Account Administrators to, "Immediately disable the ACES access of any employee no longer needing access, leaving employment, or taking an extended leave of absence." Additionally, the Account Administrator is required to immediately fill out, electronically submit, and maintain a copy of the AESD-42 for all ACES users who no longer have ACES access.</p> <p>CalPERS ACES Security procedures outlined on the CalPERS website at <a href="http://www.calpers.ca.gov">www.calpers.ca.gov</a> require agencies</p>	<p>completed, submitted and maintained.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the Department and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
8. The Department may not maintain appropriate ACES security procedures. (continued)	to keep a signed copy of security documents on file for ACES users. An AESD-43 must be completed for each employee using CalPERS on-line access and be available to CalPERS upon request. Forms must be retained in a secure work site location of the employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement. CalPERS is to be notified immediately in the event that any of its sensitive or confidential information is subjected to unauthorized disclosure, modification or destruction.	

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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 Department'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: September 2010

Staff: Michael Dutil, CIA, Senior Manager  
Jacque Conway, CPA, CIA, CGFM, Manager  
Adeeb Alzanoon  
Emma Shaw

# APPENDIX

## DEPARTMENT'S WRITTEN RESPONSE

**CALIFORNIA CONSERVATION CORPS****Executive Office**

1719 24<sup>th</sup> Street, Sacramento, CA 95815  
(916) 341-3207 FAX (916) 324-3347  
www.ccc.ca.gov



August 12, 2010

CalPERS  
Office of Audit Services  
P.O. Box 942701  
Sacramento, CA 94229-2701  
Attention: Margaret Junker, CIA, CPA

Dear Ms. Junker,

Enclosed is the California Conservation Corps' (CCC) response to CalPERS draft report on the review conducted in February, 2010. Three exceptions were noted in the "Results in Brief" section of the report, and eight "Risks" were identified in the "Risk and Mitigation Table", of these, three contained "Recommendations".

Based upon the results provided to the CCC from CalPERS, the department agrees that the three exceptions found during the audit are accurate and include:

- One retired annuitant exceeded the 960 hour threshold in a fiscal year by one hour.
- Required health benefit documentation was not on file for three members in the sample.
- Required ACES Employer User Security Agreements and Delete ACES Users Access Forms were not on file for eleven ACES users.

**Corrective Action**

The CCC agrees with CalPERS' finding that one retired annuitant exceeded the 960 hour threshold in a fiscal year by one hour. Further, the CCC agrees with CalPERS' recommendation that the department more closely monitor the hours worked for all retired annuitants and to work with CalPERS BNSD to identify the impact of the unlawful employment, and determine any adjustments, if any are necessary.

Although the CCC agrees that required dependent enrollment documentation was not on file for three members, the report indicates that the department completed and filed the HB-12A forms for the three members during the on-site filed work conducted by CalPERS (and is referenced as an appendix in the draft report). The CCC agrees to

Ms. Junker  
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ensure that the proper member and dependent enrollment documentation is on file for all members.

The CCC agrees that the department did not maintain the ACES forms on file for eleven active/inactive ACES users. However, the CCC provided CalPERS with a confidential list of individuals mentioned in this section (and is referenced as an appendix in the draft report). The CCC agrees to work with CalPERS ERSD to ensure that ACES Employer User Security Agreements and Delete ACES Access forms are completed, submitted and maintained.

If you or your staff has questions regarding our response, please contact Cindy Domasky, Transactions Supervisor at (916) 341-3221.

Sincerely,

A handwritten signature in black ink, appearing to read "Erin Healy", written in a cursive style.

Erin Healy  
Administrative Services Division Chief

Cc: Cindy Domasky, Transactions Supervisor