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February 28, 2011

Employer Code: 5408
Job Number: P10-019

California Gambling Control Commission
Karen E. Cotton, Deputy Director
2399 Gateway Oaks Drive, Suite 220
Sacramento, CA 95833-4231

Dear Ms. Cotton:

Enclosed is our final report on the results of the state agency review completed for the California Gambling Control Commission. Your Commission'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 Commission and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

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

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Don Martinez, Interim Chief, EMHS, CalPERS
Joann Stewart, Staff Services Manager, California Gambling Control Commission

California Gambling Control Commission



Public Agency Review



Office of Audit Services

Employer Code: 5408
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CALIFORNIA GAMBLING CONTROL COMMISSION

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RESULTS IN BRIEF

We reviewed the California Gambling Control Commission's (Commission) enrolled individuals, health and retirement contributions, compensation 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 temporary/part-time employees were not enrolled in CalPERS membership.
- Verification of eligibility was not available for five dependents enrolled in health benefits.

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

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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. SCO's Payroll Procedures Manual Section G105, outlines miscellaneous special compensation payment processing methods and whether they are subject to CalPERS for the purpose of retirement calculation.

The SCO also has the responsibility for processing the health care contribution amounts for state employees and state agencies. Based on the information

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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 Commission is responsible for setting policy, establishing regulations, conducting audits, making determinations of suitability for gaming employees and other individuals and entities, issuing licenses, acting as administrator of gaming revenues deposited into the Indian Gaming Special Distribution Fund, acting as trustee over the revenues deposited into the Indian Gaming Revenue Sharing Trust Fund, and administering the provisions of the Gambling Control Act and the Tribal-State Gaming Compacts.

The Commission oversees the operations of approximately 91 cardrooms and 58 tribal casinos according to state law and Tribal-State Gaming Compacts.

SCOPE

As part of the Board approved plan for fiscal year 2010/2011, we reviewed the Commission's payroll reporting and enrollment processes as these processes relate to the Commission's health and retirement mandates with CalPERS. The objective of this review was limited to the determination that the Commission 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 September 27 through September 29, 2010.

The review period was limited to the examination of the records and processes from July 1, 2007 through June 30, 2010. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the mandated requirements the Commission had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the Commission had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the Commission's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions for sampled employees and compared the Commission's payroll information with the data reported to CalPERS to determine whether the Commission correctly reported compensation earnable.

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- ✓ Reviewed the Commission's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the Commission'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 Commission's classification of employees to determine whether the Commission reported sampled employees in the appropriate coverage groups. The retirement account code, which is entered by the Commission into the SCO system, is converted to the coverage group code when the information is reported to CalPERS.
- ✓ Reviewed the Commission's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Reviewed employees and their dependents to determine whether the Commission properly enrolled eligible individuals into CalPERS Health Benefits Program.

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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 Commission may not accurately report compensation earnable to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of seven employees over two service periods. The service periods reviewed were March 2009 (03/09-0) and March 2010 (03/10-0). We determined that compensation was accurately reported to CalPERS.</p>	<p>None.</p>
<p>2. The Commission may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS for a sample of seven employees over two service periods. We reconciled the payrates to the Department of Personnel Administration's public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. The service periods reviewed were March 2009 (03/09-0) and March 2010 (03/10-0).</p> <p>We determined the Commission paid and reported payrates pursuant to the authorized published salary information.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The Commission may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of three temporary/part-time employees and examined the number of hours worked in fiscal years 2008/2009 and 2009/2010 to determine whether they reached or exceeded the 1,000 hour membership eligibility criterion and were timely enrolled, or whether they had prior membership and should have been enrolled upon employment by the Commission.</p> <p>We determined that the temporary/part-time employees in our sample were properly enrolled or excluded from CalPERS membership, with the exception of two individuals who met eligibility by reaching the 1,000 hour threshold in May 2010. The Commission should have enrolled these employees and reported earnings effective June 1, 2010.</p> <p>Government Code § 20305, states, in part, “(a) An employee whose appointment or employment contract does not fix a term of full-time, continuous employment in excess of six months is excluded from this system unless: (3)(B) The person...completes 1,000 hours within the fiscal year, in which case, membership shall be effective not later than the first day of the first pay period of the</p>	<p>The Commission should monitor the hours worked by temporary/part-time employees and enroll employees into CalPERS membership when they reach 1,000 hours worked in a fiscal year.</p> <p>The Commission should work with CalPERS ERSD to assess the impact of this membership issue and to determine what adjustments, if any, are necessary.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the Commission and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The Commission may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>month following the month in which...1,000 hours of service were completed.”</p> <p><u>Independent Contractors</u></p> <p>The Commission did not employ the services of independent contractors during the review period.</p>	<p>None.</p>
<p>4. The Commission may unlawfully employ retired annuitants.</p>	<p><u>Maximum Hours Threshold</u></p> <p>We reviewed the hours worked by four retired annuitants in fiscal years 2008/2009 and 2009/2010. Our sample testing revealed that the sampled retired annuitants did not exceed the 960 hour threshold.</p> <p>We also determined that the Commission had a method in place to ensure retired annuitants who received unemployment insurance compensation during the prior 12-month period were not reappointed.</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 four sampled annuitants’ ages exceeded the normal retirement age when services were provided.</p>	<p>None.</p> <p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The Commission may not appropriately report members under the proper coverage group code.</p>	<p>We examined the appropriateness and accuracy of the assigned RACs. SCO's Personnel Action Manual, page 2.62.2a, defines a RAC as, "A one or two digit alpha or numeric code used by the Employment History Database system to designate an employee's retirement status."</p> <p>We tested a sample of six employees representing six RAC types used by the Commission. We reviewed each sampled employee's RAC and verified whether the coverage group was consistent with the information in the CalPERS database. We determined the Commission accurately assigned RACs in accordance with the SCO's Personnel Action Manual and CalPERS State Handbook for the sampled members.</p>	<p>None.</p>
<p>6. The Commission may not accurately report unused sick leave balances for retiring CalPERS members.</p>	<p>We reviewed the unused sick leave balances for a sample of three retirees to determine whether the Commission properly computed and reported the balances. We determined the Commission accurately certified retiring members' unused sick leave balances to CalPERS.</p>	<p>None.</p>
<p>7. The Commission may not properly enroll eligible employees and their dependents in health benefits.</p>	<p>We reviewed a sample of nine employees to assess the health benefits eligibility and enrollment of members and their dependents. Our sample testing revealed the Commission properly enrolled eligible employees and their dependents in CalPERS Health Benefits Program, except</p>	<p>The Commission must ensure that the proper member and dependent enrollment documentation is on file at the Commission within 60 days from</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The Commission may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>for the following:</p> <ul style="list-style-type: none"> • The Commission did not provide marriage certificates supporting the enrollment of two employees' spouses. • The Commission did not provide birth certificates verifying the eligibility of two children enrolled under one member's health benefits. • The Commission did not have the required Affidavit of Eligibility for one economically dependent child enrolled under one member's health benefits. <p>Government Code § 20085, states, in part, "(a) It is unlawful for a person to do any of the following: (1) Make, or cause to be made, any knowingly false material statement or material representation, to knowingly fail to disclose a material fact, or to otherwise provide false information with the intent to use it, or allow it to be used, to obtain, receive, continue, increase, deny, or reduce any benefit administered by this system. (b) For purposes of this section, 'statement' includes, but is not limited to, any oral or written application for benefits, report of family relationship..., or continued eligibility for a benefit or the amount of a benefit administered by this system. (c) A person who violates any provision of this section is punishable by imprisonment in a county jail not to exceed</p>	<p>the date of our final report.</p> <p>Please send an email to: HBB_Audit_Services@calpers.ca.gov 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 was sent to the Commission and CalPERS HBB as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The Commission may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>one year, or by a fine of not more than five thousand dollars (\$5,000), or by both that imprisonment and fine. (d) A person violating any provision of this section may be required by the court in a criminal action to make restitution to this system... for the amount of the benefit unlawfully obtained."</p> <p>California Code of Regulations § 599.500, states, "(f) '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....(k) 'Eligible' means eligible under the law and this subchapter to be enrolled....(n) A child attains the status of 'family member' at birth....'family member' includes any unmarried child who is economically dependent upon the employee or annuitant, when there exists a parent-child relationship with the employee or annuitant."</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 Commission'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: February 2011

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

APPENDIX A

COMMISSION'S WRITTEN RESPONSE



GAMBLING CONTROL COMMISSION

STEPHANIE SHIMAZU, ACTING CHAIRPERSON
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February 7, 2011

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

Dear Ms. Junker:

We have reviewed the draft report of the compliance review of the California Gambling Control Commission (Commission), including the exceptions. For the time period of the audit, July 1, 2007 through September 29, 2010, the Commission had several factors affecting the documentation of records, but we agree with exceptions cited.

The Commission had contracted Personnel Services through the Department of General Services until February 2008 when we assumed the responsibility. Currently, the Human Resources staff asks for verification of eligibility, but do not maintain a copy of the documents once verified. The documents are usually confidential and not a routine part of record retention in an Official Personnel File. Staff changes and the staff appointed to the Human Resources Section, Personnel Transactions was relatively new to the discipline at that time and in the process of training. The staff has subsequently attended State Controllers Office and Benefits Administration training and continues to participate in the many training options. The following provides our response to the exception recommendations:

Membership: The audit identified temporary/part time employees who should have been enrolled when they reached the appropriate number of hours for enrollment for their classification.

Corrective action was taken immediately, and the employees were enrolled as specified.

Health Benefits Enrollment: The audit identified deficiencies of proof of marriage for 2 employees, lack of birth certificates for dependent children for 1 employee, and no affidavit on file for an economically dependent child enrolled for 1 employee.

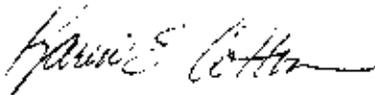
Corrective action: The employee needing an affidavit deleted the dependent from her coverage immediately, as the child is no longer a dependent. One of the employees who

needed marriage verification retired, and did not respond to our request for documentation. The other employee has not produced his marriage certificate although he has been asked and reminded to do so. The employee with numerous dependent children without birth certificate verification, were added as a result of a court order from her husband's divorce decree. The employee was unable to obtain the birth certificates from the children's mother. I believe that the eligibility in these cases would have been verified at the time of the enrollment of their dependents; however, we do not maintain those confidential records in our files.

We appreciated working with Ms. Emma Shaw. Records were corrected and the audit was a learning experience as Ms. Shaw was informative and provided in-depth knowledge of the retirement and health benefits laws and rules.

If you have any questions or require any additional information, please contact Joann Stewart, at 263-0497 or at jstewart@cgcc.ca.gov.

Sincerely,



Karen E. Cotton, Deputy Director
Planning and Support Services Division

Cc: File