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August 22, 2011

Employer Code: 5150-5224
Job Number: P10-025

Department of Corrections
California State Prison – Sacramento County
Teresa Noriega, Staff Services Manager I
P.O. Box 290001
Sacramento, CA 95671-0001

Dear Ms. Noriega:

Enclosed is our final report on the results of the public agency review completed for the California Department of Corrections, California State Prison – Sacramento. Your agency's 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: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Darryl Watson, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS

Office of Audit Services



State Agency Review

**Department of Corrections
California State Prison
Sacramento County**

**Employer Code: 5150-5224
Job Number: P10-025**

August 2011

**DEPARTMENT OF CORRECTIONS
CALIFORNIA STATE PRISON SACRAMENTO COUNTY**

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RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Department of Corrections California State Prison Sacramento County's (Prison) enrolled individuals, member compensation, required health and retirement documentation and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Two retired annuitants exceeded the 960-hour threshold in a fiscal year.
- Required health benefit documentation was not on file for one sampled member and eligibility verification for nine dependents enrolled in CalPERS Health Benefits Program was not provided.

The pertinent sections of the Government Code and California Code of Regulations for each finding are described in greater detail under Appendix C.

A confidential list identifying the individuals mentioned in this report has been sent to the Prison and CalPERS Benefit Services Division (BNSD) and Health Account Services (HAS) as an appendix to the draft report.

PRISON BACKGROUND

The Prison is located adjacent to Folsom State Prison. It first opened in 1986 and was administered by the prison warden and was called New Folsom. In October 1992, the name was changed to California State Prison -Sacramento, and the Prison was administered as a separate prison with its own warden.

The Prison is a multi-mission institution. Fundamentally, the Prison houses maximum security inmates serving long sentences or those that have proved to be management problems at other institutions. The Prison also serves as a medical hub for Northern California with Psychiatric Services, Enhanced Outpatient and Enhanced Outpatient Administrative Segregation levels of healthcare. The Prison currently has an Outpatient Housing Unit and a Correctional Treatment Center, which was licensed in February 2003.

Memoranda of Understanding (MOU) and employment agreements outline all Prison employees' salaries and benefits and state the terms of employment agreed upon between the Prison and its employees.

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The Prison contracted with CalPERS effective January 1, 1932, to provide retirement benefits for local miscellaneous, state safety and state industrial employees. The Prison's current contract identifies the length of the final compensation period as twelve months or thirty-six months for the varied coverage groups. The Prison contracted with CalPERS effective January 1, 1962, to provide health benefits to all eligible employees.

SCOPE

As part of the Board approved plan for fiscal year 2010/2011, OAS reviewed the Prison's payroll reporting and member enrollment processes as these processes relate to the Prison's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from July 1, 2007 through June 30, 2010. The on-site fieldwork for this review was conducted on November 29 through December 3, 2010. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed under Appendix B.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The 960-hour worked threshold for retired annuitants was exceeded in fiscal year 2009/2010.

Recommendations:

The Prison should review all hours worked in a fiscal year by all retired annuitants and reinstate those that exceed the 960-hour threshold. In addition, the Prison should monitor the hours worked by retired annuitants more effectively to ensure that retired annuitants do not exceed 960 hours worked in a fiscal year.

The Prison should work with CalPERS BNSD to assess the impact of this unlawful employment and determine what adjustments are necessary.

Conditions:

OAS' sample testing revealed that two retired annuitants exceeded the 960-hour threshold in fiscal year 2009/2010.

Criteria:

Government Code § 21224(a)

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Finding 2: The Prison did not provide eligibility verification for dependents enrolled in CalPERS Health Benefits Program nor maintain a required health benefit enrollment form on file.

Recommendations:

The Prison must ensure that the proper member and dependent enrollment documentation is on file at the Prison within 60 days from the date of the final OAS report. The CalPERS HAS may be contacted at 1-888-CalPERS (1-888-227-7377) with any questions.

The Prison should work with CalPERS HAS to obtain the missing documentation and to cancel enrollment of any person who is found to be ineligible to participate in the CalPERS Health Benefits Program.

Conditions:

OAS was unable to determine whether enrollment for six dependents was proper because the Prison did not provide eligibility verification, such as marriage certificates and various dependent child documents, for dependents enrolled in CalPERS Health Benefits Program. In addition, the prison did not maintain the required health form on file for one member. Specifically, the following findings were noted:

- The Prison did not provide marriage certificates supporting the enrollment of two employees' spouses.
- The Prison did not provide birth certificates verifying the eligibility of seven dependent children enrolled under four sampled members' health benefits.
- The Prison did not maintain on file the required Health Benefit Plan Enrollment (HBD-12) form for one sampled member.

Along with the written response, the Prison provided copies of marriage certificates for two spouses and copies of birth certificates for six of the seven dependents missing eligibility documentation during the field review.

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Criteria:

Government Code § 20085, § 22775, § 22797
California Code of Regulations § 599.500

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CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the Prison's payroll and health 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.

Respectfully submitted,

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

Date: August 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Emma Shaw
Jose Martinez

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APPENDIX A

BACKGROUND

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BACKGROUND

California Public Employees' Retirement System

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 Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. CalPERS Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. Health Account Services (HAS), as part of the CASD, 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).

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

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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 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 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.

APPENDIX B

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the Prison complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether the Prison followed prescribed reporting and enrollment procedures, as they relate to the Prison's health and retirement mandates with CalPERS.

This review covers the period July 1, 2007 through June 30, 2010.

SUMMARY

Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives OAS interviewed key staff to obtain an understanding of the Prison's personnel and payroll procedures. OAS also reviewed the following documentation:

- Mandated benefits and requirements the Prison had with CalPERS
- Correspondence files maintained at CalPERS
- Prison written labor policies and agreements
- Prison salary, wage and benefit agreements including applicable resolutions
- Prison personnel records and employee hours worked records
- Prison payroll information including Summary Reports and PERS listings
- Other documents used to specify payrate, special compensation and benefits for all employees
- Health Benefits Program enrollment records and supporting documentation
- Various other documents as necessary

OAS performed the following procedures. A description and the related sample sizes, sample periods and applicable findings for each procedure are included.

- ✓ Reviewed the payroll transactions and compared the records to data reported to CalPERS to determine whether the Prison correctly reported employees' compensation.

Sample size and period: Reviewed payroll transactions for 31 employees covering two sampled service periods: June 2009 (6/09-0) and June 2010 (6/10-0).

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No Finding

- ✓ Reviewed payrates reported to CalPERS for the sampled employees and reconciled to the Department of Personnel Administration's public salary information.

Sample size and period: Reviewed 31 sampled employees in the service period June 2009 (6/09-0) and June 2010 (6/10-0).

No Finding

- ✓ Reviewed the Prison's classification of 16 sampled employees to determine whether the Prison assigned the appropriate coverage group codes. The retirement account code, which is entered by the Prison into the SCO's system, is converted to the coverage group codes when the information is reported to CalPERS.

Sample size and period: Reviewed 16 sampled employees.

No Finding

- ✓ Reviewed the Prison's enrollment practices pertaining to optional members, temporary part-time employees, retired annuitants, and independent contractors to determine whether individuals met CalPERS membership requirements.

Temporary/part-time employees sample size and period: The Prison employed casual labor employees during fiscal years 2008/2009 and 2009/2010. Seven employees were selected to determine whether they met CalPERS eligibility requirements. The employees selected were union members who paid into the Health & Welfare Benefits fund and therefore, were properly excluded from CalPERS membership per Government Code Section 20303.

No Finding

Retired annuitants sample size and period: Reviewed the hours worked by seven retired annuitants in fiscal years 2008/2009 and 2009/2010 to determine whether the Prison monitors hours worked by retired annuitants and reinstates retired annuitants exceeding the 960 hours threshold requirement.

See Finding 1: Two retired annuitants exceeded the 960 hour worked threshold in fiscal year 2009/2010.

OAS determined the Prison had a method in place to ensure retired annuitants who received unemployment insurance

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compensation during the prior 12-month period were not reappointed.

OAS determined that a bona fide separation from employment, per Government Code Section 21220.5, was not needed as the seven sampled annuitants' ages exceeded the normal retirement age when services were provided.

Independent contractors sample size and period: The Prison did not utilize independent contractors during the review period.

No Finding

- ✓ Reviewed the Prison's calculation and reporting of unused sick leave balances for additional service credit.

Sample size and period: Reviewed seven employees who retired during the review period.

No Finding

- ✓ Reviewed health records for employees and their dependents to determine whether the Prison properly enrolled eligible individuals into CalPERS Health Benefits Program.

Sample size and period: Reviewed ten employees and their dependents who received health benefits during the review period.

See Finding 2: The Prison did not provide eligibility verification for dependents enrolled in CalPERS Health Benefits Program and did not maintain a required health benefit enrollment form on file.

APPENDIX C

CRITERIA

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CRITERIA

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 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.

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 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.

Government Code § 22775, states:

"Family member" means an employee's or annuitant's spouse or domestic partner and any child, including an adopted child, a stepchild, or recognized natural child. The board shall, by regulation, prescribe age limits and other conditions and limitations pertaining to children.

Government § 22797, states:

The board or an authorized representative may perform audits of each employer and may, at a specified time and place, require the employer to provide information or make available for examination and copying books, papers, data, and records, including, but not limited to, personnel and payroll records, as deemed necessary by the board to determine compliance with

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the provisions of this part. The information obtained from an employer shall remain confidential.

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....

APPENDIX D

PRISON'S WRITTEN RESPONSE

NOTE: Due to the confidentiality of the documents provided with the Prison's written response, copies of the documents referred to in the Prison's written response were omitted from this Appendix.

**DIVISION OF ADULT OPERATIONS
CALIFORNIA STATE PRISON - SACRAMENTO**

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August 1, 2011

Employer Code: 5150-5224

Job Number: P10-025

California Public Employees' Retirement System
Office of Audit Services
Margaret Junker, Chief
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Junker,

This letter is in response to the draft report on your review of the California Department of Corrections, California State Prison – Sacramento.

Finding one: Two retired annuitants exceeded the 960 hour worked threshold in fiscal year 2009/2010.

I agree with the recommendation to review all hours worked in a fiscal year by all retired annuitants. The prison does have procedures in place to track all hours worked. I have met with my staff and have informed them that once an employee starts getting close to the 960 hours, that they should immediately inform the employee and their Supervisor of how close they are and how many hours they have left for the fiscal year. The Prison will contact CalPERS BNSD to assess the impact of this unlawful employment and determine what adjustments are necessary.

Finding two: The prison did not provide eligibility verification for dependents enrolled in CalPERS Health Benefits Program and did not maintain a required health benefit enrollment form on file.

I agree with the recommendation to have all documentation on file within 60 days from the date of the final OAS report. The documentation is on file at this time. I have included copies of the missing documentation. I will email HBB_Audit_Services@calpers.ca.gov to inform them that it is on file.

In closing I would like to say that it was a pleasure working with Ms. Emma Shaw as she conducted the audit.

Sincerely,

A handwritten signature in cursive script that reads 'Teresa Noriega'.

TERESA NORIEGA, Staff Services Manager I
California State Prison – Sacramento

Enclosure