



California Public Employees' Retirement System
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August 13, 2012

Employer Code: 5707-5817
CalPERS ID: 7881579858
Job Number: P10-044

Department of Public Health
Sandra Cornwell, Chief
Human Resources Branch
P.O. Box 997389, MS1700-1702
Sacramento, CA 95899-7378

Dear Ms. Cornwell:

Enclosed is our final report on the results of the state agency review completed for the Department of Public Health. Your Department'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: Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Annette Mendonsa, Staff Services Manager II, Department of Public Health

Office of Audit Services



State Agency Review

California Department of Public Health

**Employer Code: 5707-5817
Job Number: P10-044**

August 2012

DEPARTMENT OF PUBLIC HEALTH

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RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the California Department of Public Health (Department) enrolled individuals, member compensation, required health and retirement information 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:

- Temporary/part-time employees were not enrolled in CalPERS membership and the State Alternate Retirement Program.
- Retired annuitants were not reinstated.
- Eligibility verification for dependents enrolled in CalPERS Health Benefits Program was not provided.
- An incorrect retirement account code was assigned for one employee.

DEPARTMENT BACKGROUND

The California Department of Public Health (CDPH) was established as a State agency through Senate Bill 162 in 2007. The Department employs approximately 3,500 people in over 60 locations around the state and administers a budget of over \$3 billion. The Department's mission is to optimize the health and well-being of the people in California. Memoranda of Understanding (MOU) and employment agreements outline Department employees' salaries and benefits and state the terms of employment agreed upon between the Department and its employees.

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

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SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the Department's payroll reporting and member enrollment processes as these processes relate to the retirement and health contracts between the State of California and CalPERS. The review period was limited to the examination of sampled records and processes from January 1, 2008, through December 31, 2010. The on-site fieldwork for this review was conducted on May 24, 2011, through May 27, 2011.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The Department did not enroll temporary/part-time employees into CalPERS membership when eligibility was met.

Recommendation:

The Department should effectively monitor the hours worked by temporary/part-time employees and promptly enroll employees into CalPERS membership and the State Alternate Retirement Program when they reach 1,000 hours worked in a fiscal year.

OAS recommends that the Department work with CASD to assess the impact of this membership issue and determine what adjustments are needed.

Condition:

OAS reviewed the hours worked for a sample of 28 temporary/part-time employees during fiscal years 2008/2009 and 2009/2010 to determine whether they met eligibility requirements and, if so, were timely enrolled into CalPERS membership and the State Alternate Retirement Program.

OAS determined the Department did not properly enroll the 28 sampled employees into CalPERS membership and the State Alternate Retirement Program. Specifically, OAS determined the following:

- Twenty-seven employees worked more than 1,000 hours in one or more of the sampled fiscal years; however, the employees were not enrolled into CalPERS membership and the State Alternate Retirement Program.
- One employee worked more than 1,000 hours in a fiscal year and was not enrolled into CalPERS membership and the State Alternate Retirement Program in a timely manner.

Criteria:

Government Code: § 20044, § 20281.5(a), § 20281.5(b), § 20305

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Finding 2: The Department did not reinstate retired annuitants who exceeded the 960 hour threshold in a fiscal year.

Recommendation:

The Department 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 Department should monitor the hours worked by retired annuitants to ensure the 960 hour threshold is not exceeded in a fiscal year without reinstating the retired annuitants into membership.

OAS recommends BNSD have the retired annuitants reimburse CalPERS for any retirement allowance received during the period of unlawful employment, pay CalPERS employee contributions that should have been paid during the period of unlawful employment, and reimburse CalPERS for administrative expenses incurred in handling the situation.

Conditions:

OAS reviewed the hours worked for 15 retired annuitants who worked for the Department in fiscal years 2008/2009 and 2009/2010 to determine whether the retired annuitants exceeded the 960-hour threshold and if so, whether they were reinstated in a timely manner, as required.

OAS determined six retired annuitants exceeded the 960-hour threshold in one or both fiscal years and were not reinstated. Specifically:

- One retired annuitant worked 994 hours in fiscal year 2008/2009 and 1,048 hours in 2009/2010.
- One retired annuitant worked 1,013 hours in fiscal year 2009/2010.
- One retired annuitant worked 969.5 hours in fiscal year 2009/2010.
- One retired annuitant worked 1,152 hours in fiscal year 2009/2010.
- One retired annuitant worked 965 hours in fiscal year 2009/2010.
- One retired annuitant worked 1,004 hours in fiscal year 2009/2010.

Criteria:

Government Code: § 20160, § 21220, § 21224(a)

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Finding 3: The Department did not provide eligibility verification for dependents enrolled in CalPERS Health Benefits Program and did not maintain required health forms on file.

Recommendation:

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

OAS recommends CASD obtain the missing documentation and cancel enrollment of any person who is found to be ineligible to participate in the CalPERS Health Benefits Program.

Condition:

OAS reviewed a sample of 15 employees to assess the health benefits eligibility and enrollment of members and their dependents. OAS found the Department did not maintain the required health enrollment forms for five individuals. In addition, OAS was unable to ascertain whether enrollments for individuals were proper because the Department failed to provide required eligibility documentation requested, such as marriage certificates and various dependent child documents. Specifically, the following exceptions were noted:

- The Department did not maintain the required Health Benefit Plan Enrollment form (HBD-12) for five employees.
- The Department was unable to provide marriage certificates supporting the enrollment of nine sampled employees' spouses.
- The Department was unable to provide birth certificates verifying the eligibility of 22 dependent children enrolled under 13 sampled employees' health benefits.
- The Department did not maintain HBD-40 declaration forms for two children enrolled under a sample employee's health benefits plan.

Criteria:

Government Code: § 20085, § 22775, § 22797

California Code of Regulations: § 599.500(f), § 599.500(k), § 599.500(n), § 599.500(o)

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Finding 4: The Department did not appropriately report an employee under the proper retirement account code.

Recommendation:

The Department should ensure appropriate Retirement Account Code (RAC) assignments so that each employee is reported under the proper coverage group code.

OAS recommends the Department work with CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed.

Condition:

OAS reviewed a sample of 25 employees to determine the accuracy of assigned RACs. A RAC is defined as a one or two digit alpha or numeric code used by the Employment History Database system to designate an employee's retirement status.

OAS determined the Department accurately assigned RACs for each of the sampled individuals, except in one instance. The Department was aware the employee had prior employment with Marin County; a CalPERS reciprocal retirement system and believed the employee was not subject to CalPERS Alternate Retirement Program. Persons who are members of a reciprocal retirement system and whose employment was subject to a reciprocal retirement system within the six months prior to membership in CalPERS are not subject to the Alternate Retirement Program. However, OAS identified the employee separated employment from Marin County, was refunded their retirement contributions, and thus was no longer a member of the reciprocal system at the time of hire with the Department. The employee should have been assigned an RAC of TJ. Instead, the Department assigned an RAC of 4L.

Criteria:

Government Code: § 20281.5(c)(4)

State Controller's Office Personnel Action Manual

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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 agency'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. 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

Date: August 2012
Staff: Michael Dutil, CIA, Senior Manager
Alan Feblowitz, CFE, Manager
Jose Martinez
Emma Shaw

DEPARTMENT OF PUBLIC HEALTH

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. In addition, 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. 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.

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.

APPENDIX B

OBJECTIVES

DEPARTMENT OF PUBLIC HEALTH

OBJECTIVES

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

- Whether the Department complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to retirement and health benefits contracts with CalPERS were followed.

This review covers the period of January 1, 2008, through December 31, 2010.

SUMMARY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the Department's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ Reviewed:
 - Retirement and health contracts and amendments
 - Correspondence files maintained at CalPERS
 - Written labor policies and agreements
 - Salary, wage and benefit agreements including applicable resolutions
 - Department personnel records and employee hours worked records
 - Department payroll information and payroll data reported to CalPERS
 - 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
- ✓ Reviewed Department payroll records and compared the records to data reported to CalPERS to determine whether the Department correctly reported compensation.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to public salary records to determine whether base payrates were accurately reported.

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- ✓ Reviewed State records and databases to determine whether payroll reporting elements were reported correctly.
- ✓ Reviewed the Department's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the Department's enrollment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the Department's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the Department's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick.
- ✓ Reviewed health records to determine whether the Department properly enrolled eligible individuals into CalPERS Health Benefits Program, if contracted for Health Benefits.

APPENDIX C

DEPARTMENT'S RESPONSE



RON CHAPMAN, MD, MPH
Director

State of California—Health and Human Services Agency
California Department of Public Health



EDMUND G. BROWN JR.
Governor

AUG 08 2012

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

Dear Ms. Junker:

Enclosed is the California Department of Public Health's (CDPH) response to the Compliance Review Performed by California Public Employees' Retirement System (CalPERS) for the Period January 1, 2008 through December 31, 2010. CDPH appreciates the opportunity to respond.

If you have any questions, please contact Karen Petruzzi, CDPH Audit Coordinator, at (916) 650-0266.

Sincerely,

Original signed by Daniel Kim for Dr. Ron Chapman

Ron Chapman, MD, MPH
Director & State Health Officer

Enclosure

California Department of Public Health Response to the
Compliance Review Performed by California Public Employees' Retirement System
for the Period January 1, 2008 through December 31, 2010

Recommendation 1:

The Department should effectively monitor the hours worked by temporary/part-time employees and promptly enroll employees into California Public Employees' Retirement System (CalPERS) membership and the State Alternate Retirement Program when they reach 1,000 hours worked in a fiscal year.

Office of Audit Services (OAS) recommends that the Department work with Customer Account Services Division (CASD) to assess the impact of this membership issue and determine what adjustments are needed.

California Department of Public Health (CDPH) Response 1:

CDPH agrees that the Department should effectively monitor the hours worked by temporary/part-time employees and promptly enroll employees into CalPERS membership and the State Alternate Retirement Program when they reach 1,000 hours worked in a fiscal year. Effective August 2012, CDPH will monitor the hours worked by temporary/part-time employees by running monthly reports in the Human Resources Information System (HRIS). HRIS is CDPH's attendance reporting and tracking database. When temporary/part-time employees work 1,000 hours in a fiscal year, CDPH will promptly enroll them into CalPERS membership and the State Alternate Retirement Program.

By August 31, 2012, CDPH will contact CASD to assess the impact of this membership issue and determine what adjustments are needed. We will determine the date for completing any needed changes after we determine the scope.

In September 2013, CDPH will implement the State Controller's Office (SCO) MyCalPAYS HR/payroll system. MyCalPAYS will automatically process CalPERS enrollment for temporary/part-time employees after they work 1,000 hours in a fiscal year.

Recommendation 2:

The Department 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 Department should monitor the hours worked by retired annuitants to ensure the 960-hour threshold is not exceeded in a fiscal year without reinstating the retired annuitants into membership.

OAS recommends Benefit Services Division (BNSD) have the retired annuitants reimburse CalPERS for any retirement allowance received during the period of unlawful employment, pay CalPERS employee contributions that should have

been paid during the period of unlawful employment, and reimburse CalPERS for administrative expenses incurred in handling the situation.

CDPH Response 2:

CDPH agrees that the department should review all hours worked in a fiscal year by all retired annuitants, reinstate those that exceed the 960-hour threshold, and monitor hours worked by retired annuitants to ensure they do not exceed the 960-hour threshold in a fiscal year. Effective May 2011, CDPH generates monthly reports in HRIS to track retired annuitant hours and Human Resources Branch (HRB) staff informally notifies retired annuitants when they are approaching the 960-hours threshold. By October 31, 2012, CDPH will document and implement a process to notify retired annuitants in writing when they are approaching the threshold and inform them of the requirement to reinstate into membership if they exceed 960 hours in a fiscal year. The process will include defining the number of hours worked that will trigger written notification.

CDPH agrees that BNSD should have retired annuitants reimburse CalPERS for any retirement allowance received during the period of unlawful employment, pay CalPERS employee contributions that should have been paid during the period of unlawful employment, and reimburse CalPERS for administrative expenses incurred in handling the situation. By August 31, 2012, CDPH will work with BNSD to determine the periods of unlawful employment.

Recommendation 3:

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

OAS recommends CASD obtain the missing documentation and cancel enrollment of any person who is found to be ineligible to participate in the CalPERS Health Benefits Program.

CDPH Response 3:

CDPH agrees that the department must ensure that proper member and dependent enrollment documentation is on file at the Department within 60 days from the date of the final OAS report. By August 31, 2012, CDPH will contact CASD to obtain additional information and clarification.

CDPH agrees CASD should obtain the missing documentation and cancel enrollment of any person ineligible to participate in the CalPERS Health Benefits Program.

Beginning with the 2011 Open Enrollment period, CDPH provided information to all employees concerning the importance of supporting documentation to ensure proper member and dependent enrollment. At that time, we verbally instructed HRB staff not to

process benefit enrollment forms without all of the necessary documentation. By September 30, 2012, CDPH will document the process for submitting benefit documents and obtaining required supporting documentation. Additionally, CDPH will create a memorandum with a checklist to indicate which supporting documents are missing when returning an incomplete enrollment document to the employee. CDPH will also continue to educate and train HRB staff and attendance coordinators concerning the requirement for supporting documentation.

By August 31, 2012, CDPH will contact CASD to discuss best practices to obtain the missing documentation and cancel enrollment of any person ineligible to participate in the CalPERS Health Benefits Program.

Recommendation 4:

The Department should ensure appropriate Retirement Account Code (RAC) assignments so that each employee is reported under the proper coverage group code.

OAS recommends the Department work with CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed.

CDPH Response 4:

CDPH agrees that the department should ensure appropriate RAC assignments so that each employee is reported under the proper coverage group code. Currently, CDPH HRB staff contacts CalPERS to verify RAC assignments for new employees. To improve compliance with our current procedures, HRB will ensure new personnel specialists receive training in RAC assignments and provide refresher training to existing personnel specialists at regular staff meetings. In September 2013, CDPH will implement the SCO MyCalPAYS HR/payroll system. MyCalPAYS will interface with CalPERS and automatically apply the proper group coverage code.

By August 31, 2012, CDPH will work with CASD to assess the impact of incorrect RAC reporting and determine what adjustments are needed.