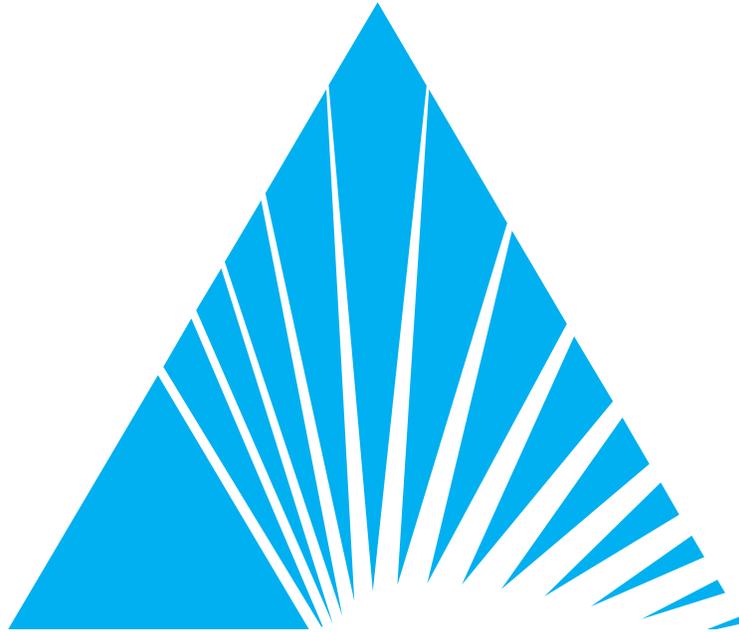


Office of Audit Services



CalPERS

State Agency Review

Department of Youth Authority Chaderjian School

**Employer Code: 5138-5208
CalPERS ID: 2340329473
Job Number: P12-009**

September 2013



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

September 25, 2013

Employer Code: 5138-5208
CalPERS ID: 2340329473
Job Number: P12-009

Department of Youth Authority Chaderjian School
Patricia Ordez, Institutional Personnel Officer
7650 South Newcastle Road
Stockton, CA 95213

Dear Ms. Ordez:

Enclosed is our final report on the results of the state agency review completed for the Department of Youth Authority Chaderjian School. Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report. In accordance with our resolution policy, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your Department 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
Gina M. Ratto, Interim General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

DEPARTMENT OF YOUTH AUTHORITY CHADERJIAN SCHOOL

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RESULTS IN BRIEF

The California Public Employees' Retirement System (CalPERS) Office of Audit Services (OAS) reviewed the Department of Youth Authority - Chaderjian School (Department) enrolled individuals, member compensation, 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:

- A temporary employee worked more than 1,000 hours in a fiscal year and was not enrolled into membership.
- Retired annuitants worked more than 960 hours in a fiscal year and were not reinstated from retirement.

BACKGROUND

The Department was created by statute in 1941 and began operating in 1943. The Department provides training and parole supervision for juvenile and young adult offenders. Memoranda of Understanding (MOU) outline Department employees' salaries and benefits and state the terms of employment agreed upon between the Department and its employees.

State members include state miscellaneous, highway patrol, state safety, state industrial and state peace officer/firefighter members. California Government Code Sections 20370 through 20445 defines these membership classifications and states the condition for State employee mandated retirement benefits.

SCOPE

As part of the Board approved plan for fiscal year 2012/2013, the OAS reviewed the Department's payroll reporting and member enrollment processes as these processes relate to the mandated retirement benefits for State employees. The review period was limited to the examination of sampled records and processes from June 1, 2009 through June 30, 2012. The on-site fieldwork for this review was conducted from August 1, 2012 through August 3, 2012. The review objectives and a summary of the procedures performed are listed in Appendix B.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: Temporary employee worked more than 1,000 hours in a fiscal year and was not enrolled into membership.

Recommendation:

The Department should review the membership status of all temporary employees and enroll those that have met membership eligibility requirements, including those that have prior membership with CalPERS.

The Department should work with CalPERS Customer Account Services Division (CASD) to ensure employees are enrolled into membership when membership eligibility requirements are met. CASD should make the necessary adjustments to eligible employee accounts pursuant to Government Code Section 20160.

Condition:

The Department did not enroll one sampled temporary employee when the membership eligibility requirement was met. Specifically, one sampled employee worked a total of 1,442 hours in fiscal year 2011/2012. The employee reached 1,000 hours worked in March 2012 and should have been enrolled into membership not later than the first day of the first pay period of April 2012.

Criteria:

Government Code: § 20044, § 20160, § 20305(a)(3)(B)

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Finding 2: Retired annuitants worked more than 960 hours in a fiscal year and were not reinstated.

Recommendation:

The Department should monitor hours worked by retired annuitants in order to limit the hours worked to 960 hours in a fiscal year, and immediately reinstate a retired annuitant from retirement when the retired annuitant's employment continues beyond the 960-hour threshold.

CalPERS Benefit Services Division (BNSD) should have the Department pay CalPERS the employer contributions, which should have been paid during the period the retired annuitants were unlawfully employed, plus interest and administrative expenses per Government Code Section 21220(c).

In addition, BNSD should 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 per Government Code Section 21220(b).

Condition:

OAS identified three sampled retired annuitants who exceeded the 960-hour threshold in fiscal year 2010/2011 and fiscal year 2011/2012. Specifically,

- One retired annuitant worked 977.56 hours during fiscal year 2010/2011, exceeding the threshold in February 2011.
- The second retired annuitant worked 960.23 hours during fiscal year 2010/2011, exceeding the threshold in June 2011. The same retired annuitant worked 1,440.75 hours in fiscal year 2011/2012, exceeding the threshold in March 2012.
- The third retired annuitant worked 1,012 hours in fiscal year 2011/2012, exceeding 960 hours in June 2012.

The retired annuitants were not reinstated from retirement. Any retired annuitant that is unlawfully employed shall be reinstated to CalPERS membership as of the date the unlawful employment began.

Criteria:

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

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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 Department's payroll records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code except as noted.

The findings and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared. This report does not constitute a final determination in regard to the findings noted within the report. The appropriate CalPERS divisions will notify the Department 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: September 2013
Staff: Cheryl Dietz, CPA, Assistant Division Chief
Michael Dutil, CIA, CRMA, Manager
Alan Feblowitz, CFE, Manager
Jose Martinez
Emma Shaw

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CHADERJIAN SCHOOL**

APPENDIX A

BACKGROUND

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BACKGROUND

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.

CASD manages contract coverage for public agencies and receives, processes, and posts payroll information. 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. 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. The employer's knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

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APPENDIX B

OBJECTIVES

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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 were followed.

This review covers the period of June 1, 2009 through June 30, 2012.

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:
 - Correspondence files maintained at CalPERS
 - Department written labor policies and agreements, if available
 - State employee salary, wage and benefit agreements
 - Department personnel records and employee hours worked records
 - Department payroll information including CalPERS listings
 - Other documents used to specify payrate, special compensation, and benefits for all employees
 - 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 the California Department of Human Resources' State employee public salary information to determine whether base payrates reported were accurate, pursuant to publicly available pay schedules that identify the position title, payrate and time base for each position.
- ✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.

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- ✓ 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 leave.

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APPENDIX C

DEPARTMENT'S RESPONSE

Memorandum

Date : August 27, 2013

To : Margaret Junker, Chief
Office of Audit Services

From: Patricia D. Ordez
Institutional Personnel Officer
Northern California Youth Correctional Center

Subject: Response to CalPERS Audit

I am in agreement with the findings and we are making every effort to enroll employees into the CalPERS system in a timely manner and we are sending out a spreadsheet with the number of hours that both our intermittent and retired annuitants are working on a quarterly basis in order to avoid working them over the allotted hours.

Finding 1:

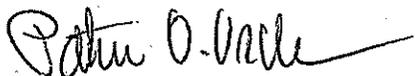
We are making every effort to get our intermittent and substitute academic teachers (TAU) enrolled CalPERS as they become eligible (when they have worked 1,000 hours in a fiscal year).

Finding 2:

On a quarterly basis we are sending out the attached charts with the number of hours worked for each intermittent and retired annuitant. This is being used in order to track the number of hours that retired annuitants are working per fiscal year.

If you need any more information from me, please let me know.

Thank you.



Patricia D. Ordez
Institutional Personnel Officer
(209) 944-6305