

Office of Audit Services



Public Agency Review

San Francisco Health Authority

**Employer Code: 1740
CalPERS ID: 1822494442
Job Number: P13-028**

May 2014



California Public Employees' Retirement System
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May 30, 2014

Employer Code: 1740
CalPERS ID: 1822494442
Job Number: P13-028

San Francisco Health Authority
Skip Bishop, Director of Accounting
201 Third Street
San Francisco, CA 94103

Dear Mr. Bishop:

Enclosed is our final report on the results of the public agency review completed for the San Francisco Health Authority (Agency). 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 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: Governing Board, San Francisco Health Authority
Brian Gentner, Sr. HR Business Partner, San Francisco Health Authority
Risk and Audit Committee Members, CalPERS
Matthew Jacobs, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the San Francisco Health Authority (Agency) complied with applicable sections of the California Government Code, California Code of Regulations (CCR) and its contract with the California Public Employees' Retirement System (CalPERS).

The Office of Audit Services (OAS) noted the following findings during the review. Details are noted in the Results section beginning on page two of this report.

- The Agency's pay schedule did not meet all requirements of CCR section 570.5.
- The Agency reported incorrect payrate and earnings.
- The Agency did not enroll eligible temporary employees into membership.

OAS recommends the Agency comply with applicable sections of the California Government Code, CCR and its contract with CalPERS. We also recommend the Agency work with the appropriate CalPERS divisions to resolve issues identified in this report.

SCOPE

The Agency contracted with CalPERS effective May 8, 1999 to provide retirement benefits for local miscellaneous employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and by the Public Employees Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the Board approved plan for fiscal year 2013/2014, the OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate to the Agency's retirement contract with CalPERS. The review period was limited to the examination of sampled employees, records, and pay periods from July 1, 2010 through June 30, 2013. The on-site fieldwork for this review was conducted on October 29, 2013. The review objectives and a summary of the procedures performed are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's pay schedule did not meet all the requirements of the CCR section 570.5.

Condition:

The Agency's pay schedule in effect during the pay period ending 6/30/2013 was not approved and adopted by the Agency's governing body. In addition, the pay schedule did not identify position titles for every employee position, show the payrate for each position, did not indicate the time base, and did not indicate an effective date. Only compensation earnable as defined under Government Code section 20636 and corresponding regulations can be reported to CalPERS and considered in calculating retirement benefits. For purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. Per CCR section 570.5, a pay schedule, among other things, must:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws.
- Identify the position title for every employee position.
- Show the payrate as a single amount or multiple amounts within a range for each identified position.
- Indicate the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually.
- Be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's internet website.
- Indicate an effective date and date of any revisions.
- Be retained by the employer and available for public inspection for not less than five years.
- Not reference another document in lieu of disclosing the payrate.

Recommendation:

The Agency should ensure its pay schedule meets all the CCR requirements.

The Agency should work with CalPERS Customer Account Services Division (CASD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code section 20160.

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Criteria:

Government Codes: § 20160, § 20636 (b)(1), § 20636 (d)
CCR: § 570.5

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2: The Agency reported incorrect payrate and earnings.

Condition:

The Agency reported incorrect payrates and earnings for two employees during fiscal year 2012/13. Specifically, the Agency reported incorrect monthly payrates and bi-weekly earnings that did not agree with the Agency's pay schedule. Payrate is an important factor in computing a member's retirement allowance because service credit and final compensation are directly related to the payrate and earnings reported for a member.

Recommendation:

The Agency should report the correct payrates and earnings.

The Agency should work with CASD to determine the impact of this incorrect reporting and make the necessary adjustments to member accounts pursuant to Government Code section 20160.

Criteria:

Government Codes: § 20160, § 20630 (b)(1)

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3: The Agency did not enroll eligible temporary employees into membership.

Condition:

The Agency did not enroll temporary employees when membership eligibility requirements were met. Specifically, OAS identified four employees who worked more than 1,000 hours in fiscal year 2012/13 that were not enrolled. The employees worked between 1,186 and 2,194 hours in the fiscal year. Government Code section 20305 requires employees who complete 1,000 hours within a fiscal year to be enrolled into membership effective not later than the first day of the first pay period of the month following the month in which 1,000 hours of service were completed.

Recommendation:

The Agency should monitor the hours worked by temporary employees to ensure employees are enrolled when membership eligibility requirements are met.

The Agency should work with CASD to make necessary adjustments to eligible employee accounts pursuant to Government Code section 20160.

Criteria:

Government Codes: § 20044, § 20160, § 20305

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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 A. OAS limited the test of transactions to employee samples selected from the Agency'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 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

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Alan Feblowitz, CFE, Manager
Jose Martinez, Auditor
Nuntawan Camyre, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

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

- Whether the Agency complied with applicable sections of the California Government Code (sections 20000 et seq.) and Title 2 of the CCR.
- Whether prescribed reporting and enrollment procedures as they relate to the Agency's retirement contract with CalPERS were followed.

This review covers the period of July 1, 2010 through June 30, 2013. This review did not include an assessment as to whether the Agency is a "public agency", and expresses no opinion or finding with respect to whether the Agency is a public agency or whether its employees are employed by a public agency.

SUMMARY

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

- ✓ Reviewed:
 - Provisions of the contract and contract amendments between the Agency and CalPERS
 - Correspondence files maintained at CalPERS
 - Agency Board minutes and Agency Board resolutions
 - Agency written labor policies and agreements
 - Agency salary, wage and benefit agreements including applicable resolutions
 - Agency personnel records and employee hours worked records
 - Agency payroll information including Contribution Detail Transaction History reports
 - Other documents used to specify payrate, special compensation, and benefits for all employees
 - Various other documents as necessary
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency correctly reported compensation.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to Agency public salary records 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, and duly approved by the Agency's governing body in accordance with requirements of applicable public meeting laws.

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- ✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the Agency's employment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the Agency's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the Agency's affiliated entities to determine if the Agency shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Agency or by the affiliated entity.

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APPENDIX B

AGENCY RESPONSE



**SAN FRANCISCO
HEALTH PLAN™**

Here for you

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May 15, 2014

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

Re: San Francisco Health Authority (SFHA), Employer Code 1740, CalPERS ID 1822494442,
Job Number P13-028

Dear Ms. Junker:

This letter will provide written response to the draft report enclosed with your letter dated April 21, 2014 for the recently completed audit covering the period of July 1, 2010 to June 30, 2013.

Finding 1 – Agency's Pay Schedule Did Not Meet Requirements

We agree with the finding and audit recommendation. It is important to note that upon gaining a better understanding of the rules covering the employer pay schedule, SFHA sought advice from the CalPERS office to create a pay schedule that would be in compliance with CalPERS requirements. The pay schedule was completed and approved by SFHA's Governing Board prior to the completion of the audit.

Finding 2 – Incorrect Monthly Pay Rate

We agree with the finding and audit recommendation. This error occurred as the result of a data entry error. The correct monthly pay rate should have been entered as \$9,999.99. When this error was detected, it was corrected immediately. It is also important to note that the incorrect monthly pay rate did not affect biweekly employee and employer contribution amounts reported in the MyCalPERS system.

Finding 2 – Incorrect Monthly Pay Rate and Biweekly Earnings

We agree with the finding and audit recommendation. The error of reporting a monthly pay rate of \$5,014.67 and biweekly earnings of \$2,314.46 occurred as the result of a timing issue. In our efforts to prepare and adopt a salary schedule for July 1, 2012 through June 30, 2013 that would comply with CalPERS requirements, we inadvertently listed the annual salary for this position that did not go into effect until the July 1, 2013 through June 30, 2014 period.

Finding 3 – Agency Did Not Enroll Eligible Employees Working Through Temporary Employment Agency Into Membership

We agree with the finding and audit recommendation. Throughout the course of the audit, SFHA and the CalPERS auditor had several conversations regarding individuals working at SFHA through temporary employment agencies. While SFHA had a difference of opinion in terms of when the employee-employer relationship truly began for these individuals, we agree with the finding and audit recommendation.

It should be noted that SFHA acted quickly to correct deficiencies once they became known and has made changes to bring the agency into compliance. Going forward, our agency is committed to take all necessary steps to ensure compliance with CalPERS rules. Steps taken so far include:

- attending CalPERS Educational Forums to enhance understanding of CalPERS rules
- seeking guidance from CalPERS when preparing salary schedules
- seeking guidance from CalPERS when determining reportable compensation
- periodically auditing SFHA employee information in MyCalPERS to confirm accuracy
- monitoring hours worked by individuals from temporary employment agencies to ensure adherence to the 1,000 hour rule
- timely enrollment of individuals from temporary employment agencies who exceed the 1,000 hour threshold
- reporting hours worked by retired annuitants
- screening prospective employees and independent contractors for previous participation in CalPERS
- distributing CalPERS Circular Letters to a wider audience within the SFHA organization
- continuing to seek guidance from CalPERS on an as-needed basis

SFHA appreciates the work done by the CalPERS Office of Audit Services. We view the recent audit as a positive experience and one that offered a valuable educational opportunity to SFHA management. We believe the actions noted above demonstrate SFHA's ongoing commitment to comply with the terms of its contract with CalPERS.

Sincerely,



Brian R. Gentner

Senior Human Resources Business Partner