

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Coalinga**

**CalPERS ID: 6749451495**  
**Job Number: BI15-005**

**May 2016**



California Public Employees' Retirement System  
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May 31, 2016

CalPERS ID: 6749451495  
Job Number: BI15-005

Marissa Trejo, City Manager  
City of Coalinga  
155 W. Durian Ave.  
Coalinga, CA 93210-1911

Dear Ms. Trejo:

Enclosed is our final report on the results of the public agency review completed for the City of Coalinga (Agency). Your written response indicates disagreement with Finding 3. We appreciate the additional information you provided in your response. After consideration of this information, we have revised Finding 3. However, our recommendations remain as stated 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. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief  
Office of Audit Services

Enclosure

cc: City Council Members, City of Coalinga  
Suzanne Redding, Human Resources Generalist, City of Coalinga  
Risk and Audit Committee Members, CalPERS  
Matthew G. Jacobs, General Counsel, CalPERS  
Anthony Suine, Chief, BNSD, CalPERS  
Renee Ostrander, Chief, EAMD, CalPERS  
Carene Carolan, Chief, MAMD, CalPERS

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# CITY OF COALINGA

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## RESULTS IN BRIEF

The objective of our review was to determine whether the City of Coalinga (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), 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.

- Scheduled work hours were incorrectly reported.
- Regular earnings and special compensation were incorrectly reported.
- Payrate and pay schedule did not meet all the Government Code and CCR requirements.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, 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 December 31, 2012 to provide retirement benefits for local miscellaneous and safety (fire and police) employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and 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 CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's compliance with the PERL and its contract related to compensation and payroll reporting. The review was limited to the examination of the sampled fire safety employees, records, and pay periods from July 1, 2013 through October 31, 2015. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency incorrectly reported scheduled work hours.

The Agency incorrectly reported the number of scheduled full-time work hours for two fire safety employees. By misreporting the number of scheduled full-time work hours, the employees' monthly retirement allowance could be understated by as much as 23 percent for the Firefighter/EMT and 5 percent for the Fire Captain.

The Agency reported the Firefighter/EMT and Fire Captain's payrate on an hourly basis. The Agency reported the Firefighter/EMT's scheduled full-time hours as 40 per week for a 9-month period and 53 hours per week for a 3-month period in Fiscal Year 2013-14. The Agency reported the Fire Captain's scheduled full-time hours as 53 per week from July 1, 2013 through June 29, 2014. However, both employees' normal full-time work schedule beginning July 1, 2013 was 56 hours per week.

Reporting the incorrect number of scheduled full-time work hours can affect an employee's monthly retirement allowance. For example, if the Firefighter/EMT were to retire after 30 years of service, the monthly retirement could be understated by as much as 23 percent. The Firefighter/EMT's hourly payrate reported to CalPERS from July 2013 through December 2013 was \$13.12, and then increased to \$13.78 per hour in January 2014. To determine Firefighter/EMT's estimated one year final compensation, the hourly payrates would be multiplied by the number of scheduled full-time hours reported, which varied between 40 to 53, to reach an average estimated final compensation of \$30,303.81. The annual amount would convert to an estimated average of \$1,515.19 per month. However, the Firefighter/EMT worked 56 hours per week from July 1, 2013 to June 29, 2014. Using the correct full-time work schedule of 56 hours starting July 1, 2013, the Firefighter/EMT's estimated one year final compensation amount would have been \$39,164.53, or \$3,263.79 per month. The final compensation amount would then be used in determining the Firefighter/EMT's monthly retirement allowance. In the event the Firefighter/EMT retired after June 2014 and reached 30 years of service, the monthly retirement allowance would have been understated by approximately \$443.09. Therefore, reporting accurate payroll information is essential for calculating correct member benefits at retirement.

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Reporting an incorrect number of scheduled full-time work hours may result in:

- Delays in member retirement processing
- Inaccurate retirement estimates
- Miscalculation of employer contributions
- Incorrect payments of benefits
- Hardship to retired members from a reduction in benefits

***Recommendation:***

The Agency should ensure the correct number of scheduled full time work hours are reported for all employees.

The Agency should work with CalPERS Employer Account Management Division (EAMD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20120, § 20121, § 20160, § 20630

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## CITY OF COALINGA

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**2:** The Agency incorrectly reported compensation.

The Agency incorrectly reported regular earnings and Fair Labor Standard Act Pay (FLSA) for the same fire safety employees mentioned in Finding 1. The Agency paid the employees regular earnings based on the employees' payrate and a 56-hour work week schedule. Additionally, the Agency paid the employees the required FLSA premium pay for the three hours worked above the statutory maximum work week of 53. However, instead of reporting the FLSA premium pay as special compensation, the Agency reported the FLSA premium pay in regular earnings. Government Code Section 20630(a) identifies compensation as payment for the member's services performed during normal working hours. Additionally, Government Code Section 20636(c)(6) and CCR Section 571(a) state the premium paid for the hours worked within the normally scheduled working hours that are in excess of the statutory maximum work week shall be included as special compensation. Therefore, the Agency should have reported the FLSA premium pay as special compensation separate from regular earnings in each pay period. As a result, special compensation was understated and the regular earnings amounts were overstated. Earnings and special compensation are important factors in computing a member's retirement benefits.

***Recommendation:***

The Agency should ensure the correct amount of regular earnings and FLSA premium pay are reported for all employees.

The Agency should work with CalPERS EAMD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Code: § 20120, § 20121, § 20160, § 20630, § 20636  
CCR: § 571

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## CITY OF COALINGA

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**3:** The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

The Agency did not have a pay schedule that met all requirements of the Government Code and CCR. Specifically, the pay schedules provided to OAS, which included a copy of the pay schedule from the Agency's website, did not indicate the time base for the Firefighter/EMT and Fire Captain payrates. More specifically, the payrates were not identified as weekly, biweekly, monthly, bimonthly or annual.

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; and
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the payrate definition and pay schedule requirements cannot be used to calculate retirement benefits because the amounts do not meet the definition of payrate under Government Code Section 20636(b)(1). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.



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***Recommendation:***

The Agency should ensure its pay schedule meets all of the Government Code and CCR requirements.

The Agency should work with CalPERS Employer Account Management Division (EAMD) to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20160, § 20636

CCR: § 570.5

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# CITY OF COALINGA

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## CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives outlined in Appendix A. The procedures performed provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Beliz Chappuie

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BELIZ CHAPPUIE, CPA, MBA  
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Alan Feblowitz, CFE, Senior Manager  
Alicia Watts, Manager  
Emma Shaw, Auditor  
Michelle O'Connor, CPA, Auditor

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**CITY OF COALINGA**

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# **APPENDIX A**

## **OBJECTIVES**

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# CITY OF COALINGA

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## OBJECTIVES

The objectives of this review were limited to determine whether member information was accurate and the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting procedures prescribed in the Agency's retirement contract with CalPERS.

## METHODOLOGY

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 written labor policies and agreements
  - Agency salary, wage, and benefit agreements including applicable resolutions
  - Agency personnel records and employee time records
  - Agency payroll information
  - CalPERS payroll reports
  - Documents related to employee payrate and benefits
  - Various other relevant documents
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency correctly reported compensation.
- ✓ Reviewed payroll information reported to CalPERS and reconciled payroll records, personnel records, pay schedules, and written labor policies to determine whether the Agency correctly reported scheduled work hours, whether service credit was accurate, and whether retirement benefits were correct.

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# **APPENDIX B**

**AGENCY'S WRITTEN RESPONSE**



**CITY OF COALINGA**  
*The Sunny Side of the Valley*

May 4, 2016

CalPERS Office of Audit Services  
Attn: Beliz Chappuie and Michelle O'Connor  
P.O. Box 942701  
Sacramento, CA 94229-2701

Dear Ms. Chappuie and Ms. O'Connor,

We are in receipt of the draft report on the compliance review regarding our contract with the California Public Employees' Retirement System. Please allow this letter to serve as our response addressing whether or not we agree with the recommendations in the report.

**Draft Finding 1: The Agency incorrectly reported scheduled work hours.**

*Recommendation: The Agency should ensure the correct number of scheduled full time work hours are reported for all employees.*

*Recommendation: The Agency should work with CalPERS Employer Account Manager Division (EAMD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.*

The City neither agrees nor disagrees with this finding. The City reported scheduled work hours as it was explained by our Employer Services Representative from CalPERS during the spring of 2013, shortly after our CalPERS contract was effective. If there is a determination that the hours were reported incorrectly, we will gladly accept the recommendations and work with a CalPERS representative to begin correctly reporting hours and to correct any previously reported inaccuracies as we understand the importance of reporting correctly to ensure accurate calculations for correct member benefits at retirement.

**Draft Finding 2: The Agency incorrectly reported compensation.**

*Recommendation: The Agency should ensure the correct amount of regular earnings and FLSA premium pay are reported for all employees.*

*Recommendation: The Agency should work with CalPERS EAMD to make necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.*

The City neither agrees nor disagrees with this finding. The additional three (3) hours in question have been included in the pay schedule which is why it was reported as regular earnings. If those hours

have been reported in correctly, we will gladly accept the recommendations and work with a CalPERS representative to begin correctly reporting compensation and to correct any previously reported inaccuracies as we understand the importance of reporting correctly to ensure accurate calculations for correct member benefits at retirement.

**Draft Finding 3: The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.**

*Recommendation: The Agency should ensure its pay schedule meets all of the Government Code and CCR Requirements.*

*Recommendation: The Agency should work with CalPERS Employer Account Management Division (EAMD) to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.*

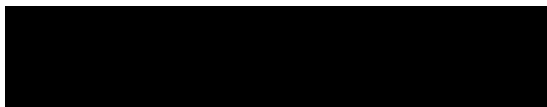
The City does not agree with this finding as the pay schedule does meet all of the Government Code and CCR requirements. It is immediately accessible and available for public view, it is on the City of Coalinga website, it is reported annually to the California State Controller, and it has been approved and adopted by the City Council in accordance with requirements and applicable public meeting laws, it identifies the position title for every employee position, it shows the pay rate as a single amount or multiple amounts within a range for each identified position, it indicates the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually, it does indicate an effective date and date of revisions, it is retained by the City for five years, and it does not reference another document in lieu of disclosing the pay rate.

However, if Finding 1 is correct, the City is in agreement that would result in the hourly rate listed for the positions of Firefighter/EMT, Firefighter/Paramedic, Engineer, and Captain being incorrect in comparison to the biweekly, monthly, and annual amounts stated. As stated above, if there is a determination that the hours were reported incorrectly, we will gladly accept the recommendation and work with a CalPERS representative to begin correctly reporting hours and to correct any previously reported inaccuracies which would also include adjusting the hourly rate.

The City also acknowledges that the pay schedule that was sent to CalPERS during the audit process was the version that is part of the Memorandum of Understanding between the City of Coalinga and the Association rather than the pay schedule that meets all of the required criteria.

Please know that we are glad that we were selected to participate in the audit and that it is our intent to ensure compliance with all requirements. We look forward to working with CalPERS staff to correct any deficiencies and we thank you for your assistance and recommendations throughout the process.

Sincerely,



Original signed by Marissa Trejo

Marissa Trejo  
City Manager