

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

### **City of Dinuba**

**CalPERS ID: 1573700529**  
**Job Number: SP15-015**

**April 2016**



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

April 28, 2016

CalPERS ID: 1573700529  
Job Number: SP15-015

Cass Cook, Financial Services Director  
City of Dinuba  
405 E. El Monte Way  
Dinuba, CA 93618

Dear Mr. Cook:

Enclosed is our final report on the results of the public agency review completed for the City of Dinuba (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. 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, City of Dinuba  
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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## RESULTS IN BRIEF

The objective of our review was to determine whether the City of Dinuba (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.

- Pay schedule did not meet all of the Government Code and CCR requirements.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Contributions were incorrectly reported.
- Observation: Agency records did not agree with my|CalPERS information.

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 January 11, 1970 to provide retirement benefits for local miscellaneous and safety 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. Additionally, OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through June 30, 2014. 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 did not have a pay schedule that met all of the Government Code and CCR requirements.

***Condition:***

The Agency did not have a pay schedule that met all the requirements of the Government Code and CCR. Specifically, the pay schedule provided to OAS did not indicate an effective date and referenced other documents to identify payrates. Additionally, the pay schedule did not include the position title and payrate for Financial Services Director.

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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# CITY OF DINUBA

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***Recommendation:***

The Agency should ensure it has a pay schedule that 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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**2:** The Agency did not report special compensation in accordance with the Government Code and CCR.

***Condition:***

- A. The Agency's written labor policy did not include the condition for payment of Temporary Upgrade Pay provided to the Financial Services Director. Specifically, the written labor policy contained a provision for Temporary Upgrade Pay; however, it did not identify the amount of payment. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the eligibility for, and amount of, the special compensation.
- B. The Agency did not properly correct special compensation payments that were reported to CalPERS in error. The Agency reported Educational Incentive Pay of \$183.69 in each bi-weekly pay period from July 1, 2013 through February 8, 2014 for a Police Lieutenant that totaled \$2,939.04. Subsequent to this period, the Agency found that the Educational Incentive Pay had been paid and reported in error. However, instead of reporting an adjustment to CalPERS to reverse the \$2,939.04, the Agency reduced the amount of member contributions remitted to CalPERS. Specifically, the Agency deducted \$50.00 from the member's regular earnings each pay period as part of a repayment plan and reduced the amount of the normal member contributions by paying contributions on the member's regular earnings minus the \$50.00. The Agency should have submitted an adjustment to CalPERS to reverse the \$2,939.04 Educational Incentive Pay reported in error and continued to report the full member contribution amount.
- C. The Agency incorrectly calculated and reported FLSA Premium Pay for fire employees. Specifically, the Agency calculated FLSA Premium Pay by including non-reportable compensation to base payrate. However, the base payrate should only include reportable compensation. As a result, FLSA Premium Pay was over stated and incorrectly reported to CalPERS.
- D. The Agency's written labor policies did not indicate the conditions for the payment of FLSA Premium Pay for fire safety employees. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the eligibility for, and amount of, the special compensation.

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Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, special compensation is required to be contained in a written labor policy or agreement indicating the eligibility and amount of special compensation. Also, special compensation must be available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, and historically consistent with prior payments for the job classification.

***Recommendation:***

The Agency should ensure that conditions for payment of special compensation such as Temporary Upgrade Pay and FLSA Premium pay are contained in a written labor policy or agreement.

The Agency should ensure it correctly reports special compensation.

The Agency should work with 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, § 20630, § 20636  
CCR: § 571



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**3:** The Agency did not pay and report correct contributions.

***Condition:***

- A. The Agency incorrectly paid and reported contributions for classic employees who received special compensation. Specifically, the Agency's written labor agreement required classic employees to pay 2 percent contributions and the Agency to pay the remaining percentage of the member contributions. However, the Agency did not split the contributions paid on special compensation as specified in its written labor agreement. Instead, the Agency paid the full amount of the contributions on special compensation. As a result, the Agency over paid contributions and classic employees under paid the contributions by the same amount.
  
- B. The Agency incorrectly paid and reported the required member contribution for an employee subject to PEPRA. Specifically, the Agency has an impaired Memorandum of Understanding (MOU) that allows the Agency to provide PEPRA employees the same benefits provided to employees under the Dinuba Police Officer Association. The MOU stated the Agency would pay employee contributions not to exceed 7 percent as Employer Paid Member Contributions (EPMC). However, the Agency incorrectly paid and reported 11.5 percent EPMC. The Agency should have reported 7 percent as EPMC and 4.5 percent as member paid contributions to CalPERS.

***Recommendation:***

The Agency should ensure it correctly pays and reports contributions.

The Agency should work with EAMD to assess the impact of this incorrect reporting and make any adjustments, if necessary, to any impacted retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20160, § 20636, § 20691  
CCR § 569

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**Observation:** The Agency's records do not agree with my|CalPERS information.

**Condition:**

OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans*. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active, inactive, or retired), class of employee, and eligible compensation.

OAS identified one employee who had a date of birth that was different from the date of birth in my|CalPERS. OAS also identified seven individuals who had employment statuses that were different from the employment statuses in my|CalPERS. The Agency's records show that the five employees have separated and two employees have retired. However, the employees' status did not indicate separated or retired in my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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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  
Diana Thomas, CIA, CIDA, Senior Manager  
Chris Wall, MBA, Senior Manager  
Dennis Szeto, Lead Auditor  
Janice Ng, Auditor

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**CITY OF DINUBA**

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# **APPENDIX A**

## **OBJECTIVES**

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## OBJECTIVES

The objectives of this review were limited to determine whether the Agency complied with:

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

Effective January 1, 2013, new enrollments are checked against the PEPRA definition of "new member," regardless of whether the enrollment is for a first time CalPERS member or an existing member. All members that do not fit within the definition of a new member are referred to as "classic members."

## 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 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 time records
  - Agency payroll information including Contribution Detail Transaction History reports
  - Documents related to employee payrate, special compensation, 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 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 meetings laws.

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- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

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# **APPENDIX B**

**AGENCY'S WRITTEN RESPONSE**



City Manager's Office  
559/591-5904

Development Services  
559/591-5906

Parks & Community Services  
559/591-5940

City Attorney  
559/437-1770

Public Works Services  
559/591-5924

Fire/Ambulance Services  
559/591-5931

Administrative Services  
559/591-5900

Engineering Services  
559/591-5924

Police Services  
559/591-5914

April 8, 2016

**VIA EMAIL, & U.S. CERTIFIED MAIL**

Ms. Beliz Chappuie  
California Public Employees' Retirement System  
Office of Audit Services  
P.O. Box 942701  
Sacramento, CA 94229-2701

Re: Response by City of Dinuba to CalPERS Public Agency Review  
CalPERS ID: 1573700529  
Job Number: SP15-015

Dear Ms. Chappuie:

The City of Dinuba ("City") received the draft report on the compliance review document prepared by the California Public Employees' Retirement System ("CalPERS"), Office of Audit Services. This letter is in response to the draft report received by the City on April 6, 2016. The City's response is as follows:

**Finding 1:** The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

***CalPERS 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 members accounts pursuant to Government Code Section 20160.

**City's Response to Finding 1:** *Agree.* The City will amend the salary schedule to include an effective date. Corrections have been made to our current salary schedule that include the position title and pay rate for the Financial Services Director.

**Finding 2:** The Agency did not report special compensation in accordance with the Government Code and CCR.

***CalPERS Recommendation:*** The Agency should ensure that conditions for payment of special compensation such as Temporary Upgrade Pay and FLSA Premium pay are contained in a written labor policy or agreement.



The Agency should ensure it correctly reports special compensation.

**City's Response to Finding 2 – Condition A:** *Agree.* City will amend the applicable Personnel Policy to include payment of, including, but not limited to, the eligibility for, and amount of, the special compensation of Temporary Upgrade Pay.

**City's Response to Finding 2 – Condition B:** *Agree.* Staff will correct the prior reporting of Educational Incentive Pay for the employees associated with Condition B and will submit an adjustment to CalPERS to reverse the amount reported in error and continue the full member contribution.

**City's Response to Finding 2 – Condition C:** *Agree.* Staff will be working with CalPERS Employer Account Management Team (EAMD) to identify incorrectly calculated FLSA Premium Pay and make adjustments, if necessary, to any impacted active and retired member accounts.

**City's Response to Finding 2 – Condition D:** *Agree.* City will seek to amend the applicable Memorandum of Understanding (MOU) for Fire Safety employees to include verbiage that contains the conditions for FLSA Premium Pay, including, but not limited to, the eligibility for, and amount of, the special compensation.

**Finding 3:** The Agency did not pay and report correct contributions.

**CalPERS Recommendation:** The Agency should ensure it correctly pays and reports contributions.

The Agency should work with EAMD to assess the impact of this incorrect reporting and make and adjustments, if necessary, to any impacted retired member accounts pursuant to Government Code Section 20160.

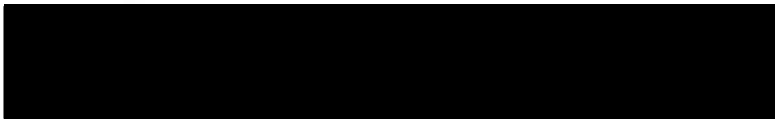
**City's Response to Finding 3 – Condition A:** *Agree.* Staff will be working with EAMD to assess the impact of the incorrect pay and reporting of contributions for classic employees who received special compensation and make and adjustments, if necessary, to any impacted retired member accounts.

**City's Response to Finding 3 – Condition B:** *Agree.* City will seek to amend the applicable Memorandum of Understanding (MOU) to reflect the reporting of Employer Paid Member Contributions (EPMC) for employees subject to PEPPRA.

The City of Dinuba is in agreement with all three findings. In some cases, corrections have already been made or are in the process of being made pending the final report. The City appreciates the opportunity to provide responses to the agency compliance review findings. We look forward to working with CalPERS Employer Account Management Division to clarify and correct these findings.

Please feel free to contact me at (559) 591-5900 if you need additional information.

Sincerely,



Original signed by Cass Cook

Cass Cook  
Financial Services Director