Office of Audit Services

Public Agency Review

City of Etna

CalPERS ID: 1789349225
Job Number: P14-014

June 2015

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

June 26, 2015

CalPERS ID: 1789349225
Job Number: P14-014

Bonnie Sublett, City Clerk
City of Etna
P.O. Box 460
Etna, CA 96027

Dear Mrs. Sublett:

Enclosed is our final report on the results of the public agency review completed for the City of Etna (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 Young Hamilton

YOUNG HAMILTON, Acting Chief
Office of Audit Services

Enclosure

cc: Council, City of Etna
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

CITY OF ETNA

TABLE OF CONTENTS

SUBJECT PAGE

Results in Brief 1

Scope 1

Office of Audit Services Review Results 2

1: Pay schedule 2

2: Payrate 4

3: Special Compensation 5

4: Non-Reportable Compensation 6

5: Retired Annuitant 7

6: Membership 8

Conclusion 9

Objectives ..... Appendix A

Agency's Written Response ..... Appendix B

CITY OF ETNA

RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Etna (Agency) complied with applicable sections of the California 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.
- A payrate was incorrectly reported.
- Special compensation was not reported as required by CCR Section 571.
- Non-reportable compensation was incorrectly reported.
- Retired annuitant information was not tracked or reported.
- Eligible part-time employee was not enrolled into membership.

OAS recommends the Agency comply with applicable sections of the California 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 1, 1980 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 2014-15, the OAS reviewed the Agency's payroll reporting and member enrollment processes related 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, 2011 through June 30, 2014. The review objectives and a summary of the procedures performed are listed in Appendix A.

CITY OF ETNA

OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency did not have a pay schedule that met the Government Code and CCR requirements. Specifically, the Agency's governing body approved salaries through its budgetary process. However, the personnel budget document was not presented to and adopted by the Agency's governing body as a publicly available pay schedule in accordance with the requirements of CCR Section 570.5. It also did not list all position titles, payrates for each identified positon and the time base.

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). There are no exceptions included in Government Code Section 20636(b)(1). When an employer does not meet the requirements for a publicly available salary schedule, CalPERS, in its sole discretion, may

determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

Recommendation:

The Agency should ensure reported payrates are set forth in a publicly available 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

CITY OF ETNA

2: The Agency reported an incorrect payrate.

Condition:

The Agency reported an incorrect hourly payrate in the pay period ending December 31, 2013. The Agency approved a salary increase effective September 10, 2013 from $15.38 per hour to $16.35 per hour. The Agency compensated the employee at an hourly rate of $16.35, but incorrectly reported an hourly payrate of $15.38 for the pay period ending December 31, 2013. Payrate is the amount listed on the Agency's pay schedule pursuant to CCR Section 570.5. Payrate is an important factor in computing a member's retirement allowance because the service credit and final compensations are directly related to the payrate and earnings.

Recommendation:

The Agency should ensure payrates are correctly reported.

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, § 20635, § 20636

CITY OF ETNA

3: The Agency did not report special compensation as required by the CCR.

Condition:

The Agency did not report the monetary value for the purchase, rental and/or maintenance of uniforms for classic employees required to wear uniforms. Specifically, the employment agreements for two police officers specified that the Agency reimbursed the employees up to $660.00 annually in two equal payments of $330.00 for purchase and upkeep of required uniforms. CCR Section 571 requires compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing, a statutory item, be reported as special compensation. Further, Government Code Section 20636(c)(3) requires the Agency to identify the pay period in which special compensation was earned.

Recommendation:

The Agency should report uniform allowances for classic employees required to wear uniforms as special compensation in the period in which it was earned.

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, § 20636
CCR: § 571

CITY OF ETNA

4: The Agency incorrectly reported non-reportable compensation.

Condition:

The Agency incorrectly reported overtime for three employees as regular earnings. Specifically, the Agency incorrectly reported 26 hours of overtime for a safety police employee and 0.5 hours of overtime for two miscellaneous employees during the pay period ending December 31, 2013. Only compensation earnable, as defined under Government Code Section 20636 and corresponding regulations, can be reported to CalPERS and considered in the calculating of retirement benefits.

Recommendation:

The Agency should immediately stop reporting compensation that does not meet the definition of compensation earnable pursuant to Government Code Section 20636 and CCR Section 571.

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, § 20635, § 20636
CCR: § 571

5: The Agency did not monitor or report the hours worked for a retired annuitant.

Condition:

The Agency hired a retired annuitant to perform both the services of an ambulance director for $700.00 per month and an ambulance driver for an hourly rate of $12.00. The Agency did not monitor or maintain records to track the hours the retired annuitant worked in the ambulance director position. Therefore, OAS was unable to determine whether the retired annuitant exceeded the 960-hour limit for the 2012-13 fiscal year. As a result of the Agency not providing a pay schedule (Finding 1), OAS was unable to determine a comparable position to ensure the rate of pay did not exceed the maximum monthly base salary paid to other employees performing comparable duties as listed in a publicly available pay schedule.

Additionally, the Agency did not report the payrate, hours worked and earnings paid for all retired annuitants in my|CalPERS to allow monitoring of the 960-hour limit in the fiscal year 2013-14.

Recommendation:

The Agency should maintain records to monitor the hours worked by retired annuitants.

The Agency should report retired annuitant payrates, hours worked and earnings in my|CalPERS.

The Agency should work with CalPERS Benefit Services Division (BNSD) to determine the appropriate course of action and make any necessary adjustments pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20222.5, § 21224

CITY OF ETNA

6: The Agency did not enroll an eligible part-time employee into CalPERS membership.

Condition:

The Agency did not enroll a part-time employee into membership when eligibility requirements were met. Specifically, the part-time employee worked for the Agency and was subsequently hired by another employer that contracts with CalPERS for retirement benefits. Once the employee was hired and enrolled by another contracting employer, the Agency was required to immediately enroll the employee into membership through my|CalPERS. Pursuant to Government Code Section 20305, employees with active CalPERS membership are required to be enrolled.

Recommendation:

The Agency should ensure part-time employees with active membership are enrolled.

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, § 20305

CITY OF ETNA

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Young Hamilton

YOUNG HAMILTON, CPA, CIA, CISA
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Senior Manager
Antonio Madrigal, Lead Auditor
Patrick McCasland, CPA, Auditor

APPENDIX A

OBJECTIVES

CITY OF ETNA

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.), California Public Employees' Pension Reform Act of 2013 (PEPRA) 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.

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:
- o Provisions of the contract and contract amendments between the Agency and CalPERS
- o Correspondence files maintained at CalPERS
- o Agency Board minutes and Agency Board resolutions
- o Agency written labor policies and agreements
- o Agency salary, wage and benefit agreements including applicable resolutions
- o Agency personnel records and employee hours worked records
- o Agency payroll information including Contribution Detail Transaction History reports
- o Other documents used to specify payrate, special compensation, and benefits for employees
- o 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 meetings laws.

✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.

CITY OF ETNA

- ✓ 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 unlawful employment occurs.

- ✓ 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.

- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

APPENDIX B

AGENCY'S WRITTEN RESPONSE

CITY OF ETNA

June 8, 2015

California Public Employees` Retirement System
PO Box 942709
Sacramento, CA 94229-2709
Attention: Young Hamilton

Re: City of Etna, CA
Calpers Id: 1789349225
Job Number: P14-014

Jose,
Thank you for your call today explaining the issues in which the City of Etna is out of compliance. We agree with your findings and we are looking forward to working with your office to bring the City of Etna back into compliance. Thank you for working with us and I look forward to hearing from your office soon.

Bonnie Sublett
[redacted]

Original signed by Bonnie Sublett

City of Etna, CA
City Clerk

Mayor – Marilyn Seward **City Clerk – Bonnie Sublett**

(530) 467-5256 ◘ FAX (530) 467-3217 ◘ P.O. Box 460, 442 Main Street ◘ Etna, California 96027