

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Fountain Valley**

**CalPERS ID: 4102420058**  
**Job Number: SP15-011**

**April 2016**



California Public Employees' Retirement System  
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April 28, 2016

CalPERS ID: 4102420058  
Job Number: SP15-011

Jean Hirai, Human Resources Director  
City of Fountain Valley  
10200 Slater Avenue  
Fountain Valley, CA 92708

Dear Ms. Hirai:

Enclosed is our final report on the results of the public agency review completed for the City of Fountain Valley (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 1 and Finding 2B. We appreciate the additional information that you provided in your response. After consideration of this information, Finding 1 was removed from the report and Finding 2B is now 1B. Also, we clarified Finding 1B.

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 Fountain Valley  
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 FOUNTAIN VALLEY

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# CITY OF FOUNTAIN VALLEY

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## RESULTS IN BRIEF

The objective of our review was to determine whether the City of Fountain Valley (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 three of this report.

- Special compensation was not reported as required by CCR Section 571.
- Payrate and earnings were incorrectly reported.

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 May 1, 1965 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 report special compensation in accordance with the Government Code and CCR.

***Condition:***

- A. The Agency incorrectly reported the monetary value of the uniforms provided to field service employees as a lump sum amount in the pay period ended August 2, 2013. Government Code Section 20636(c)(3) requires the Agency to identify the pay period(s) in which the special compensation was earned.
- B. The Agency's written labor agreement for the field service employees did not include the condition for payment of uniforms. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the amount of, the special compensation.
- C. The Agency incorrectly reported Uniform Allowance as lump sum amounts for safety and miscellaneous employees. Specifically, the Agency provided a bi-annual Uniform Allowance to police safety employees and an annual Uniform Allowance to fire safety and both police and fire miscellaneous employees. However, the Agency reported the Uniform Allowances when paid instead of as earned. Pursuant to Government Code Section 20636(c)(3), the Agency shall identify the pay period(s) in which special compensation was earned.
- D. The Agency incorrectly reported Holiday Pay as lump sum amounts for sworn non-management police and sworn non-management fire employees. Specifically, the Agency incorrectly reported Holiday Pay for sworn non-management police employees as one lump sum amount in the pay period ended December 6, 2013. In addition, the Agency incorrectly reported Holiday Pay for sworn non-management fire employees as two lump sum amounts in the pay periods ended January 17, 2014 and June 20, 2014. Government Code Section 20636 requires the Agency to identify the pay period(s) in which special compensation was earned.
- E. The Agency incorrectly reported Holiday Pay as special compensation for a recreation coordinator. Because the recreational coordinator is not normally required to work on a holiday, Holiday Pay is not reportable as special compensation. CCR Section 571(a)(5) defines Holiday Pay as additional compensation for employees who are normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays.

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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 report the monetary value of the uniforms provided as special compensation in the period(s) earned.

The Agency should ensure that all items of special compensation are contained in a written labor policy or agreement that indicates the conditions for payment of the item of special compensation, including, but not limited to, eligibility for, and amount of, the special compensation.

The Agency should report Uniform Allowance as special compensation in the period(s) earned.

The Agency should report Holiday Pay as special compensation in the period(s) earned.

The Agency should only report Holiday Pay for employees who are normally required to work on approved holiday.

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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# CITY OF FOUNTAIN VALLEY

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2: The Agency incorrectly reported payrate and earnings.

**Condition:**

- A. The Agency incorrectly reported payrates for four employees that worked less than full-time in various pay periods of Fiscal Year 2013-14. Specifically, the Agency adjusted and reported payrates based on earnings instead of reporting the full-time payrate for the positions. For example, the Agency reported monthly payrate of \$2,344.05 for a recreation coordinator but should have reported a full-time monthly payrate of \$4,262.00. Government Code Section 20636(b)(1) defines payrate as the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours.
- B. The Agency incorrectly reported earnings for a community services officer. Specifically, the Agency reported earnings of \$959.33 in the pay period ended February 28, 2014. However, during this pay period, the employee's actual earnings were \$1,066.00. The Agency stated this error was due to the Agency under reporting earnings to correct an over reporting of earnings from a prior period.

**Recommendation:**

The Agency should ensure that payrates and earnings are correctly reported to CalPERS.

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, § 20691  
CCR: § 570.5

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# CITY OF FOUNTAIN VALLEY

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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  
Chris Wall, Senior Manager  
Dennis Szeto, Lead Auditor  
Christopher Lee, Auditor



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**CITY OF FOUNTAIN VALLEY**

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# **APPENDIX A**

## **OBJECTIVES**

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# CITY OF FOUNTAIN VALLEY

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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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## CITY OF FOUNTAIN VALLEY

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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

Note: An attachment to the Agency's response was intentionally omitted from this appendix. Additionally, the names of individuals mentioned in the Agency's response were intentionally omitted from this appendix.



## CITY OF FOUNTAIN VALLEY

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10200 SLATER AVENUE • FOUNTAIN VALLEY, CA 92708-4736 • (714) 593-4506, FAX: (714) 593-4546

March 29, 2016

Ms. Beliz Chappuie  
CalPERS  
Chief, Office of Audit Services  
P.O. Box 942701  
Sacramento, CA 94229-2701

CalPERS ID: 4102420058  
Job Number: SP15-011

Dear Ms. Chauppie:

The City of Fountain Valley has reviewed the draft report on CalPERS' compliance review on the City of Fountain Valley. After carefully reviewing the draft report, the City provides the following response for consideration and for inclusion in the final report:

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

Condition:

*The Memorandum of Understanding with the Police Officers' Association specified police officers would receive two pay rate increases during the term of the agreement however the pay schedule was not updated to reflect the new pay rates.*

City's Response:

After further research, we determined an incorrect version of City Resolution No. 9396, City Salary Resolution, was inadvertently submitted to Christopher Lee during his review process. What we believe happened is that prior to City Council approval of Resolution No. 9396, we realized the salary for Sr. Police Officer was incorrect then corrected it, with the City Council approving the correct Resolution.

Apparently, there was still some confusion about the correct Resolution at the time of signature thus initially, the Mayor was asked to sign the incorrect version of Resolution No. 9396 then when we realized that, he signed the correct version. Unfortunately, we didn't destroy the incorrect version which was inadvertently submitted to Christopher Lee as part of his review.

In reviewing the City's official records maintained by the City Clerk, the attached version of Resolution No. 9396 is on file as the official version of that resolution adopted by the City Council.

Therefore, while the City does agree that that the version of Resolution No. 9396 submitted to Christopher Lee in error did not reflect the updated pay rate, in actuality, the City Council has properly approved the schedule contained in the official City version of Resolution No. 9396. This Resolution does comply with the provisions of CCR Section 570.5.

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

Condition A:

*"The Agency incorrectly reported the monetary value of the uniforms provided to field employees as a lump sum amount in the pay period ended August 2, 2013."*

City's Response:

The City agrees with this statement.

Condition B:

*"The Agency's written labor agreement for the field service employees did not include the condition for payment of uniforms" including eligibility for and amount of special compensation."*

City's Response:

The City disagrees that the eligibility provisions for uniform allowance is absent from the Memorandum of Understanding. The Memorandum of Understanding for field service employees does specify eligibility for uniforms. Specifically, Section 6.01 states the following:

**Section 6.01 - Uniforms.** The City shall provide uniforms and laundry service for all Field Services employees. Field Services employees will be provided with a total of nine pairs of pants and nine shirts bi-weekly.

The cost of providing uniforms, as well as, cleaning and maintenance costs shall be borne entirely by the City. The City retains the exclusive right to determine the type of uniform to be worn, as well as, the vendor to provide the uniforms and maintenance thereof.

Uniforms will also be provided for designated custodial personnel and such other classifications as may be designated by the City Manager.

In accordance with CalPERS' amendment to Section 571, subsection (a) (5) in Title 2 of the California Code of Regulations, expanding the definition of uniform allowance to include the monetary value for the purchase of required clothing, including clothing made from specially designed protective fabrics, but excluding items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes. Effective June 2005, the City will begin reporting the monetary value of uniform items to CalPERS as uniforms/special compensation as noted below. Annually, the Field Services Division will provide the Personnel Department with the cost of providing uniforms to Field Services employees. The total cost for

the uniform program divided by the number of employees, will determine the cost of the uniforms reported to CalPERS annually.”

During the review period, the City had an informal agreement with the Association that the monetary value of uniforms for fiscal year 2012/2013 would be \$165 per year. Therefore, the City agrees that the Memorandum of Understanding did not include the monetary value of uniforms for field employees because the value changes annually.

Condition C:

*“The Agency incorrectly reported Uniform Allowance as lump sum amounts for safety and miscellaneous employees.”*

City’s Response:

The City agrees that uniform allowance was reported when paid out and not when earned.

Condition D:

*“The Agency incorrectly reported Holiday Pay as lump sum amounts for sworn non-management police and sworn non-management fire employees.”*

City’s Response:

The City agrees that holiday was reported when paid out and not when earned.

Condition E Regarding [REDACTED]:

*“The Agency incorrectly reported Holiday Pay as special compensation for a recreation coordinator.”*

City’s Response:

The City agrees that the Holiday Pay was paid as special compensation for the Recreation Coordinator. The City will make the proper correction to reflect the Holiday Pay.

**Audit Finding 3: The Agency incorrectly reported pay rate and earnings:**

Finding 3A Regarding [REDACTED]:

*The Agency should have reported a full-time monthly pay rate of \$4,262.*

City’s Response:

The City agrees that the reported pay rate of \$2,344.05 is incorrect. The City will make the proper correction to accurately report the pay rate of \$4,262.00.

Finding 3A Regarding [REDACTED]:

*The Agency should have reported a full-time monthly pay rate of \$4,619.00.*

City’s Response:

The comments/details section refers incorrectly to the employee as “Community Services Director.” Ms. [REDACTED] classification is Community Services Officer.

The City agrees that the reported pay rate of \$4,157.10 is incorrect. The City will make the proper correction to accurately report the pay rate of \$4,619.00.

Finding 3A Regarding [REDACTED]

*The Agency should have reported a full-time monthly pay rate of \$4,981.00.*

City's Response:

The City agrees that the reported pay rate of \$4,389.58 is incorrect. The City will make the proper correction to accurately report the pay rate of \$4,981.00.

Finding 3A Regarding [REDACTED]

*The Agency should have reported a full-time monthly pay rate of \$7,720.00.*

City's Response:

The City agrees that the reported pay rate of \$6,754.93 is incorrect. The City will make the proper correction to accurately report the pay rate of \$7,720.00.

Finding 3B Regarding [REDACTED]

*The Agency should have reported earnings of \$1,066.*

City's Response:

The City agrees that the reported earnings of \$959.33 are incorrect. The City will make the proper correction to accurately report the earnings of \$1,066.00.

**Documentation for Consideration:**

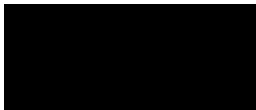
The following document is submitted for review and consideration:

1. The correct City Council Resolution No. 9396, City Salary Resolution.

We appreciate the opportunity to provide our input to CalPERS before the final compliance review report is issued. We hope that CalPERS will take the City's input into consideration and make modifications as appropriate prior to issuing the final report.

Should you have any questions or need additional information, please feel free to contact me at (714) 593-4462 or [Jean.Hirai@fountainvalley.org](mailto:Jean.Hirai@fountainvalley.org).

Sincerely,



Original signed by Jean Hirai

Jean Hirai  
Human Resources Director

- c: City Manager  
Finance Director  
Accounting Manager  
Human Resources Analyst  
Accountant