

# **Office of Audit Services**



## **Public Agency Review**

### **City of Hawthorne**

**CalPERS ID: 2458670034**  
**Job Number: SP15-009**

**April 2016**



California Public Employees' Retirement System  
Office of Audit Services  
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April 28, 2016

CalPERS ID: 2458670034  
Job Number: SP15-009

David Roberts, Director of Human Resources  
City of Hawthorne  
4455 West 126<sup>th</sup> Street  
Hawthorne, CA 90250

Dear Mr. Roberts:

Enclosed is our final report on the results of the public agency review completed for the City of Hawthorne (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 Hawthorne  
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 Hawthorne (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 and observation 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 requirements of the Government Code and CCR.
- Special compensation was not reported as required by CCR Section 571.
- 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 1, 1948 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's pay schedule did not meet all of the Government Code and CCR requirements.

***Condition:***

The Agency's pay schedule did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedules did not indicate time base and the Agency did not maintain one pay schedule that identified the position title and payrate for every employee position. Multiple pay schedules were needed to identify position titles and payrates.

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

**Condition:**

- A. The Agency's written labor policies containing the provision for Uniform Allowance did not meet all of the requirements of CCR 571(b)(1)(B). Specifically, the written labor policies or agreements did not contain the conditions for payment of the uniforms, including, but not limited to, eligibility for, and amount of, the special compensation.
- B. The Agency's written labor policy for Police Officers containing the provision for Holiday Pay did not meet all of the requirements of CCR 571(b)(1)(B). Specifically, the written labor policy or agreement did not contain the conditions for payment of the Holiday Pay, including, but not limited to, eligibility for, and amount of, the special compensation.
- C. The Agency incorrectly paid and reported special compensation for a Police Officer. Specifically, the Agency incorrectly calculated Field Training Officer Pay, an item of special compensation, using an incorrect payrate that resulted in the Agency under paying and reporting special compensation for the pay period ended January 10, 2014. The Agency stated its payroll system calculated seven percent of base salary using the individual's previous payrate instead of using the payrate that went into effect January 1, 2014.
- D. The Agency incorrectly reported special compensation for an Admin Aide II and the Chief of General Services and Public Works. Specifically, the Agency incorrectly reported a four percent merit raise as special compensation for employees who rendered exceptional work performance to the Agency. The merit raise is an additional pay which is effective for a three year period. However, the merit raise does not meet the definition of special compensation under Government Code Section 20636 or CCR Section 571. As a result, the merit raise was not reportable as special compensation.
- E. The Agency did not report Holiday Pay for a Police Services Officer in the pay period it was earned. Specifically, the Agency reported \$324.12 of Holiday Pay in the pay period ended December 13, 2013; however, it should have been reported as earned in the pay period ended November 29, 2013. Government Code Section 20636(c)(3) requires the Agency to identify the pay period(s) in which the special compensation was earned.

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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 the conditions for payment Uniform Allowance and Holiday Pay are contained in the written labor agreements.

The Agency should ensure special compensation is correctly paid and reported.

The Agency should only report items that qualify as special compensation in accordance with the Government Code and CCR.

The Agency should ensure Holiday Pay is reported in the period that it is earned, regardless of when it is paid or 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, § 20630, § 20636  
CCR: § 571



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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* requirements. 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 discrepancies between the Agency's records and my|CalPERS database. Specifically, OAS identified six individuals who separated from the Agency prior to June 30, 2014; however, they were not separated in my|CalPERS and still had an active appointment status with the Agency. 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  
Chris Wall, Senior Manager  
Dennis Szeto, Lead Auditor  
Christopher Lee, Auditor

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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."

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.

## 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

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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.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information. *(Use if GASB testing was completed)*

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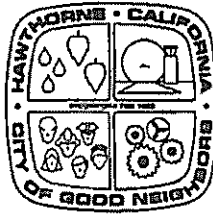
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# **APPENDIX B**

**AGENCY'S WRITTEN RESPONSE**

# CITY OF HAWTHORNE



4455 West 126th Street • Hawthorne, California 90250-4402

HUMAN RESOURCES

(310) 349-2950

April 4, 2016

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

Dear Ms. Chappuie:

The purpose of this letter is to acknowledge receipt of your March 14, 2016 letter enclosing a draft report on the City of Hawthorne's contract with the California Public Employee's Retirement System. The City of Hawthorne's response is enclosed per your request.

Thank you for the opportunity to participate in this process. The City of Hawthorne acknowledges the professionalism of Mr. Christopher Lee, Associate Program Auditor and also believes that City staff; Felice Lopez, Letty Rhodes and Evelyne Carmona provided a high level of professionalism to assist Mr. Lee in completing the audit. Your consideration of the comments and clarifications noted is appreciated. Please do not hesitate to contact me should you require additional information.

Sincerely,



Original signed by David C. Roberts, Jr.

David C. Roberts, Jr.

Director of Human Resources

cc: Arnie Shadbeh, Interim City Manager  
Rickey Manbahal, Director of Finance

**CITY OF HAWTHORNE  
RESPONSE TO CALPERS AUDIT DRAFT FINDINGS**

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

Response –

Agree. Modifications are being made to the City's pay schedules and position titles to comply with the Government Code Section 20636 and CCR Section 570.5. The City will continue to work with CalPERS Employer Account Management Division (EAMD) to ensure compliance.

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

Response –

- A. Agree. The City's written policy regarding Uniform Allowance has been carried over from previous Memorandum of Understandings. The City is completing a written policy to report the condition of payment of the uniforms, to include who is eligible for uniforms and amount of the special compensation as to meet all the requirements of CCR 571(b)(1)(B).
- B. Agree. The agency was not aware that there should be specific details, for payment of holiday pay, in each bargaining group MOU. The Agency has prepared an amendment to each affected MOU, which will be ratified by each bargaining group and the City Council.
- C. Agree. Every effort is made to pay and report special compensation correctly. At the time, this MOU required a percentage increase of base salary. In this case, the Police officer had a special compensation item which was also calculated as a percentage of base salary. The system could not calculate both percentages during the same pay period and we noted that the correct rate and reporting occurred during the next reporting period. This is no longer an issue. The system has since been programmed for flat rate increases.
- D. Agree. A four percent merit raise as a special compensation for employees was originally adopted in the City's Municipal Code. Currently the unions are drafting a policy that will meet the definition of special compensation and it will be adopted in the current bargaining agreements to comply with Government Section Code 20636.
- E. Agree. The agency was unaware that the reporting of holiday pay was not permitted on any pay period except when the holiday actually occurred. The agency will monitor this carefully and ensure that all holiday pay is reported during the pay period it occurs only.