Office of Audit Services

Public Agency Review

City of Oakley

CalPERS ID: 1385472211
Job Number: P13-070

June 2015

California Public Employees' Retirement System
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June 26, 2015

CalPERS ID: 1385472211
Job Number: P13-070

Paul Abelson, Finance Director
City of Oakley
3231 Main Street
Oakley, CA 94561

Dear Mr. Abelson:

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

YOUNG HAMILTON, Acting Chief
Office of Audit Services

Enclosure

cc: City Council Members, City of Oakley
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 primary objective of our review was to determine whether the City of Oakley (Agency) complied with applicable sections of the California Government Code, Public Employees' Pension Reform Act of 2013, 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 the CCR and Government Code requirements.
- Special compensation was incorrectly reported.
- Payrate and earnings were incorrectly reported.
- Retroactive adjustment was not reported.
- Eligible part-time employees were not enrolled into membership.
- Member reciprocal self-certification information was not maintained.
- Elective officers were incorrectly 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 April 6, 2001 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 2013-14, 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 October 1, 2010 through September 30, 2013. The review objectives and a summary of the procedures performed 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 effective January 14, 2013 did not include all position titles and corresponding payrates as required by the Government Code and CCR. Specifically, the Agency's pay schedule did not identify the position titles or payrates for the City Manager, Council Member, and the Parks and Landscape Supervisor positions.

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 incorrectly reported special compensation.

The Agency incorrectly reported special compensation, Bilingual Pay, for an employee. Specifically, the Agency's written labor agreement provides full-time eligible employees with Bilingual Pay in the amount of $35.00 per pay period; however, the Agency incorrectly reported $32.31 as Bilingual Pay in the pay period ending September 26, 2013.

Recommendation:

The Agency should ensure Bilingual Pay is reported correctly as stipulated in its written labor agreement.

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

3. The Agency incorrectly reported payrate and regular earnings.

Condition:

A. The Agency incorrectly reported a payrate that exceeded the payrate listed in its pay schedule. Specifically, a public works maintenance worker received a salary adjustment effective July 9, 2012 increasing his monthly payrate to $5,132.39. However, the maximum monthly payrate identified on the Agency's pay schedule for this position was $4,606.00.

B. The Agency incorrectly reported regular earnings for an employee. Specifically, the employee was hired on October 18, 2011. However, the earnings for the pay period ending October 30, 2011 were incorrectly reported as a retroactive salary adjustment.

Payrate and earnings are important factors in computing a member's retirement allowance because service credit and final compensation are directly related to the payrate and earnings reported for a member.

Recommendation:

The Agency should ensure payrate 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: § 20121 § 20160, § 20630, § 20636
CCR: § 570.5

4: The Agency did not report a retroactive adjustment.

The Agency did not report a retroactive salary adjustment. Specifically, the Agency paid an employee a retroactive payment in the amount of $2,485.00 for a salary increase of $355.00 per bi-weekly pay period for the earned period of June 24, 2013 through September 26, 2013. However, the Agency did not report the retroactive salary adjustment and earnings to CalPERS.

Recommendation:

The Agency should ensure that payrates and earnings for prior periods are reported using a retroactive adjustment code.

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: § 20120, § 20121, § 20160, § 20630

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5: The Agency did not enroll eligible part-time employees.

The Agency did not enroll part-time employees who met membership eligibility requirements. Specifically, the Agency did not enroll three part-time employees who exceeded 1,000 hours worked in fiscal year 2011-12. Government Code Section 20305 requires employees who complete 1,000 hours of service within a fiscal year to be enrolled into membership effective not later than the first day of the first pay period of the month following the month in which 1,000 hours of service were completed.

Recommendation:

The Agency should monitor the hours worked by part-time employees to ensure employees are enrolled timely when membership eligibility requirements are met.

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: § 20044, § 20160, § 20305

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6: The Agency did not maintain the required member reciprocal self-certification.

Condition:

The Agency did not maintain the required member reciprocal self-certification for two employees hired after January 1, 2013. CCR Section 579.3 requires individuals to self-certify in writing as to whether he or she is also a member of another public retirement system and is eligible for reciprocity. Agencies are required to retain the retirement and benefit-related information provided by the newly-hired individual.

Recommendation:

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains the information provided.

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: § 20120, § 20121, § 20122, § 20125, § 20128, § 20160, § 7522.02, § 7522.04
CCR: § 579.3

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7: The Agency incorrectly enrolled City Council members.

Condition:

The Agency incorrectly enrolled three City Council members as regular members. Specifically, the Agency did not have City Council members complete and submit the Optional Membership Form, AESD-59, prior to enrollment in membership. Upon electing to become a member, an elective officer should be enrolled as an optional member. Government Code Section 20322 states that an elective officer is excluded from membership unless the officer files with the Board an election in writing to become a member. An elective officer includes persons elected to a City Council or County Board of Supervisors.

Recommendation:

The Agency should enroll City Council members, who elect and file the appropriate membership election in writing, as optional members.

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: § 20120, § 20121, § 20160, § 20221, § 20322

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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. 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, Senior Manager
Monica Bynum, Auditor

APPENDIX A

OBJECTIVES

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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.

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".

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.

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

CITY of OAKLEY
A PLACE for FAMILIES in the HEART of the DELTA

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Sue Higgins
Vanessa Perry

June 10, 2015

Young Hamilton, Acting Chief
Office of Audit Services
California Public Employees' Retirement System
PO Box 942701
Sacramento, CA 94229-2701

RE: Response to Draft Report Dated May 27, 2015

Dear Ms. Hamilton,

Below are the City's responses to the recommendations in the Draft Report referenced above. We thank you and Ms. Bynum for your assistance in helping us to identify these matters, and update and improve our systems to better comply with all of the CalPERS contract requirements.

Result #1: The City has updated its pay schedule, and will work with EAMD to determine if any adjustments are required.

Result #2: The City has updated its procedure to ensure the Bilingual Pay is reported correctly for employees who receive it, and corrections have been posted for the identified exceptions. We will work with EAMD to determine if any additional adjustments are required.

Result #3:
As mentioned in response to Result #1, the City has updated its pay schedule, which addresses the first exception reported. Regarding the second exception, we are unable to address why this occurred. We believe it was processed and reported using the old ACES system that CalPERS replaced, and we no longer have access to the reports. We will work with EAMD to determine if any adjustments are required.

Result #4:
The City has posted the correction and will work with EAMD to determine if any adjustments are required.

Result #5:
The City does have a manual method of tracking and monitoring part-time employees' hours, and this was an error. Monitoring procedures have been

reviewed and while still manual, they have been updated to be more effective. The City will work with EAMD to determine if any adjustments are required.

Result #6:
The City has obtained self-certifications from all current regular employees hired after January 1, 2013, and will be acquiring self-certifications from all limited term employees in the next month. In addition, Human Resources has updated its new-hire checklist to include obtaining the certifications from all future new hires. The City will work with EAMD to identify and make any adjustments required.

Result #7:
Beginning in October of 2013, the City amended its contract in order to remove City Council from the list of participating classifications, which would lead to no additions of new Council members. We are willing to work with the EAMD in order to obtain all proper documentation to show election of participation, including Form AESD-59 (Election of Optional Membership), from all current and prior Council participants.

If you have any questions, or wish to discuss this with me further, please don't hesitate to call me directly at (925) 646-7010.

Best Regards,

[redacted] Original signed by Paul Abelson

Paul Abelson
Finance Director