Office of Audit Services

Public Agency Review

City of Arcadia

CalPERS ID: 1676318862
Job Number: P13-045

November 2014

California Public Employees' Retirement System
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November 26, 2014

CalPERS ID: 1676318862
Job Number: P13-045

Hue C. Quach, Director of Administrative Services
City of Arcadia
240 West Huntington Drive
Arcadia, CA 91066

Dear Mr. Quach:

Enclosed is our final report on the results of the public agency review completed for the City of Arcadia (Agency). Your written response, included as an appendix to the report, indicates agreement in part with Finding 1 and disagreement for Finding 2A and 3. We appreciate the additional information regarding Finding 2A and 3 that you provided in your response. However, after consideration of this information, our recommendations remain as stated 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 Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: City Council Members, City of Arcadia
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Arcadia (Agency) complied with applicable sections of the California Government Code, 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 the requirements of the Government Code and CCR Section 570.5.
- Special compensation was incorrectly reported.
- Member contributions were incorrectly paid and reported.

OAS did not identify any findings related to sampled employees subject to the Public Employees' Pension Reform Act of 2013 (PEPRA).

OAS recommends the Agency comply with applicable sections of the California Government Code, CCR and its contract with CalPERS. OAS also recommends the Agency work with the appropriate CalPERS divisions to resolve issues identified in this report.

SCOPE

The Agency contracted with CalPERS effective October 1, 1945 to provide retirement benefits for local miscellaneous employees, local firefighters, and police officers. 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, OAS reviewed the Agency's payroll reporting and member enrollment processes as 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 January 1, 2011 through December 31, 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 requirements of the Government Code and CCR.

Condition:

The Agency did not have one pay schedule duly approved and adopted by the Agency's governing body in accordance with applicable public meeting laws. The pay schedules did not include the time base, such as hourly, daily, bi-weekly, monthly, bi-monthly or annually. The pay schedule for the unrepresented group, City Council, Executive Management and Unrepresented Employees did not include the position title and payrate for the City Manager, City Clerk, and Council Members.

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 the purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. According to 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.
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the 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).

Recommendation:

The Agency should ensure its pay schedule meet all requirements of the Government Code and CCR.

The Agency should work with CalPERS Customer Account Services Division (CASD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20630, § 20636
CCR: § 570.5

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

Condition:

A. The Agency incorrectly calculated and over reported Holiday Pay for employees who were required to work on approved holidays. Specifically, the written labor agreement for the Arcadia Police Civilian Employees' Association ("APCEA) did not include language to add Longevity Pay to determine the hourly payrate for the calculation of Holiday Pay. As a result, Holiday Pay was incorrectly over reported.

B. The Agency reported the value of the uniforms provided for seven sampled employees. However, the provision of the Uniform Allowance was not contained in the respective employees' written labor agreement for Arcadia City Employees Association ("ACEA"), Arcadia Police Officers' Association ("APOA"), Arcadia Police Civilian Employees' Association ("APCEA"), Arcadia Public Works Employees Association ("APWEA"), Executive Management and Unrepresented Employees group.

Reportable special compensation is exclusively listed and defined in CCR Section 571. Items of special compensation must be 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.

Recommendation:

The Agency should ensure it correctly calculates and reports Holiday Pay.

The Agency should ensure special compensation of Uniform Allowance is contained in a written labor policy or agreement as required by the CCR.

The Agency should work with CASD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636
CCR: § 571

3: The Agency incorrectly reported contributions.

Conditions:

The Agency incorrectly reported contributions to CalPERS for the pay period ending December 28, 2013. In accordance with the written labor agreement and resolution the Agency agreed to pay and report seven percent of the eight percent member contribution for employees in the Miscellaneous Employee Group. The Agency incorrectly reported the entire eight percent member contributions on special compensation (value of Employer Paid Member Contributions), rather than the approved seven percent member contribution rate which should have been split between the Agency and employee. As a result, the Agency overpaid and reported Employer Paid Member Contributions (EPMC) and under reported member paid contributions.

Recommendation:

The Agency should ensure it pays and reports EPMC as stipulated by its written labor policy and ensure the appropriate resolution is on file with CalPERS.

The Agency should work with CASD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20636, § 20691
CCR: § 569

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CONCLUSION

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

Respectfully submitted,

Original signed by Phyllis Miller
PHYLLIS MILLER, CPA, CIA
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Alan Feblowitz, CFE, Manager
Chris Wall, Manager
Aileen Wong, Lead 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.) 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 meeting laws.

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

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- ✓ 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 960 hours were worked in a fiscal year.

- ✓ 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 Arcadia

Administrative Services Department

Hue C. Quach
Director of Administrative Services

October 24, 2014

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

Dear Ms. Miller:

This letter is in response to the City of Arcadia's Public Agency Review Audit Draft report. We appreciate to have given the opportunity to provide a written response to the findings noted in the report. The City's responses are as follow:

Finding 1: The Agency's pay schedule did not meet all requirements of the Government Code and CCR. The Agency did not have one pay schedule duly approved and adopted by the Agency's governing body in accordance with applicable public meeting laws. The pay schedules did not include the time base such as hourly, daily, bi-weekly, monthly, bi-monthly or annually.

Please note that all of our pay schedules are approved and adopted by Arcadia's City Council. We agree with the finding that the City need to include in our salary schedule the time base for the salary specified. The City have since corrected the item and incorporated a pay schedule to include the time base of the monthly pay rate.

Finding 2: The Agency did not correctly report special compensation as required by the CCR. The Agency incorrectly calculated and over reported Holiday Pay for employees who were required to work on approved holidays. Specifically, the Agency added Longevity pay, a reportable item of special compensation to base pay rate.

In 2011, when the City had an FLSA Audit, it was noted in a finding that longevity pay should be included in the regular rate of pay. As a result of the audit and requirement under FLSA, the City must include longevity pay in the regular rate of pay. In addition to, per the CCR Section 571(a)(5): Holiday Pay - Additional compensation for employees who are normally

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required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays. ***If these employees are paid over and above their normal monthly rate of pay for approved holidays, the additional compensation is holiday pay and reportable to PERS.*** *The employee noted in the finding work in the position of a Dispatcher. This position requires the employee to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays.*

Finding 3: The Agency incorrectly reported contributions. The Agency incorrectly reported contributions for the Value of EPMC. This is the result of the Agency paying eight percent EPMC on the Value of the EPMC rather than seven percent as specified in the resolution and MOU.

The City disagrees with this Finding. Prior to the employment agreement that required the employee to contribute 1% of the Employee Contribution rate (8% total), past MOU agreements and past practice were in place which the Employer contributed the full value of the EPMC. As the City's employment agreement with the Miscellaneous Employee Group is silent on who should pay for the EPMC on the 1% of employee member contribution, the City is required to follow past practice pending re-negotiation. The City would agree that future language in the MOU should distinguish and further clarify the employee's required contribution towards EPMC. The City will work with CASD to make any necessary adjustments to correct the reporting to CalPERS and identify the EPMC contribution between the Agency and the Employee groups.

Should you need further clarification from the responses provided, please do not hesitate to call me at (626) 574-5425 or email hquach@ci.arcadia.ca.us.

Sincerely,

Hue C. Quach
Administrative Services Director