Office of Audit Services

Public Agency Review

City of Arvin

CalPERS ID: 3755042088
Job Number: P13-022

January 2015

California Public Employees' Retirement System
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January 30, 2015

CalPERS ID: 3755042088
Job Number: P13-022

Cecilia Vela, Acting City Manager
City of Arvin
200 Campus Drive
Arvin, CA 93203

Dear Ms. Vela:

Enclosed is our final report on the results of the public agency review completed for the City of Arvin (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: City Council Members, City of Arvin
Robert Ruiz, Finance Director, City of Arvin
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Diane Alsup, Interim Chief, BNSD, CalPERS
Anthony Suine, Interim Chief, CASD, 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 Arvin (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 three of this report.

- Pay schedule did not meet all of the Government Code and CCR requirements.
- Payroll information was incorrectly reported.
- Employer Paid Member Contributions were incorrectly paid and reported.
- Payrate and earnings were not reported.
- Special compensation did not meet requirements of CCR Section 571.
- Eligible temporary/part-time employees were not enrolled into membership as required.
- Elective officers were not offered optional membership.

OAS recommends the Agency comply with applicable sections of the California Government Code, 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 September 1, 1975 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 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 July 1, 2011 through June 30, 2013. Some of the employees selected were subject to the Public Employees' Pension Reform Act of 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 did not identify the position title or payrates for every employee position. Specifically, the pay schedule in effect during the period under review did not include the City Manager, Finance Director, Chief of Police, Lieutenant or Council Member positions. In addition, the Agency's pay schedule did not indicate 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. 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 meets all the Government Code and CCR requirements.

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, § 20636
CCR: § 570.5

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2: The Agency reported incorrect payroll information.

Condition:

The Agency reported an incorrect pay code type. Pay code type is a two digit numeric code which designates the wage base on which a member is paid. The Agency reported an incorrect pay code type of hourly when reporting monthly payrates for two employees. For example, the Agency reported an employee's monthly salary of $3,184.13 as hourly in various pay periods within fiscal year 2011-12. As a result, the payrate was overstated. Payrate is an important factor 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 pay code types are correctly reported.

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

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3: The Agency incorrectly paid and reported Employer Paid Member Contributions.

Condition:

Although statutorily allowed, the Agency incorrectly paid and reported Employer Paid Member Contributions (EPMC) to CalPERS for the June 2013 pay period. Specifically, the Agency provided resolutions to CalPERS that indicated it would pay a portion of member contributions and report the portion paid by the Agency as special compensation. The percentage that the Agency agreed to pay was 2.5 percent on all reportable compensation. However, the Agency paid the entire seven percent and reported as EPMC. The amount should have been split between the employees and the Agency. As a result, the Agency over paid and reported EPMC and under reported member paid contributions.

Recommendation:

The Agency should ensure EPMC is correctly paid and reported to 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: § 20160, § 20691
CCR: § 569, § 571

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4: Payrate and earnings were not reported as required.

Condition:

The Agency did not report payrate and earnings for an employee. Specifically, the Agency paid an employee $1,700.00 of reportable earnings in the pay period ending June 17, 2013. However, the Agency did not report the employee's payrate and earnings to CalPERS. Subsequent to our review, the Agency reported the payrate and earnings for this employee.

Recommendation:

The Agency should ensure it reports the payrate and earnings to CalPERS for all enrolled members.

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, § 20630, § 20636

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

Condition:

A. The Agency did not report Holiday Pay as special compensation. Specifically, the Agency did not report Holiday Pay earned by two police employees who worked on a holiday. The employees worked in a position requiring scheduled staffing without regard to holidays. The Agency compensated the employees who worked on May 27, 2013 based on time and one half the rate of pay. However, the Agency did not report the Holiday Pay as special compensation. In addition, the Agency's written labor policy or agreement included a provision to provide Holiday Pay, but did not specify the amount. Government Code Section 20636(c)(6) requires that Holiday Pay be reported as special compensation.

B. The Agency incorrectly reported special compensation for Peace Officer Standard Training (POST) of $90.40 in the pay period ending June 17, 2013 for an employee. OAS was unable to find this employee's position listed in a written labor agreement or policy. For POST to be reported as special compensation, it must be contained in a written labor policy or agreement. As a result, POST compensation for this employee is not reportable as special compensation.

C. The Agency did not report special compensation of Uniform Allowance as required by the CCR. Specifically, we noted the following instances:
    - The Agency reimburses Animal Control Officers, Police Dispatchers, and Community Service Officers for the purchase of uniforms up to $510.00 per year. The Agency also provides Transportation and Police Employees Uniform Allowance of $132.00 and $800.00 per year, respectively. However, the Agency did not report the Uniform Allowance as special compensation.

    - The Agency did not report as special compensation the monetary value of uniforms or maintenance of uniforms provided. Specifically, the Agency provides and maintains five shirts/five pants for Public Work employees and five shirts for Transit employees. The monetary cost and value of uniform maintenance were not reported to CalPERS. Government Code Section 20636(c)(6) requires that the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation.

- The Agency's written labor agreement for Public Works and Transit employees did not address the monetary value of uniforms and its condition for payment.

Reportable special compensation is exclusively listed and defined in CCR Section 571. Reportable 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. In addition, special compensation must not be paid exclusively in the final compensation period and not be final settlement pay.

Recommendation:

The Agency should report Uniform Allowance, the monetary value for the purchase of uniforms, and Holiday Pay as special compensation.

The Agency should discontinue reporting special compensation that does not meet the CCR requirements.

The Agency should ensure special compensation items are 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

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6: The Agency did not enroll eligible temporary or part-time employees into membership as required.

Condition:

A. The Agency did not enroll a part-time employee when membership eligibility requirements were met. Specifically, the Agency did not enroll a part-time employee hired on May 3, 2013. The employee had active CalPERS membership on the date of hire. Employees with active CalPERS membership are required to be immediately enrolled on the first day of rendering services to the Agency.

B. The Agency did not enroll an employee, hired through a temporary agency, with active CalPERS membership as required. The individual was determined to be an employee because the services performed were part of the Agency's normal operations, and the Agency had direction and control over the functions and duties performed. As a result, the employee was eligible for enrollment on June 4, 2012. However, the Agency did not enroll this employee until hired into a permanent position on July 18, 2012.

Employees who have active CalPERS membership are required to be immediately enrolled upon the first day of rendering services to the Agency. As a result, the Agency should have enrolled the employees at the beginning of their initial hire date.

Recommendation:

The Agency should ensure that part-time employees and employees hired through temporary agencies with active CalPERS membership are immediately enrolled upon hire.

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

Criteria:

Government Codes: § 20160, § 20305

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7: The Agency did not offer optional membership to City Council Members.

Condition:

The Agency did not advise its Council Members of their optional CalPERS membership rights. Government Code Section 20322 states that an elective officer is excluded from membership in the CalPERS retirement system unless the officer files an election in writing with CalPERS to become a member. Optional members must be advised of their optional CalPERS membership rights when first eligible for membership. An elective officer includes persons elected to a City Council.

Recommendation:

The Agency should work with CASD to ensure elective officers are advised of their CalPERS optional membership rights when first elected and file the appropriate election in writing with CalPERS for those who elect to be members.

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Alan Feblowitz, CFE, Manager
Emma Shaw, Auditor
Edward Fama, 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 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 ARVIN

MAYOR
Jose Flores

MAYOR PRO TEM
Lupe Vasquez

COUNCIL MEMBERS
Steven Ojeda
Antoniette Pichardo
Jose Gurrola, Jr.

December 15, 2014

Phyllis Miller, Acting Chief
Office of Audit Services
California Public employees' retirement System
PO Box 942701
Sacramento, CA 94229-2701

Dear Ms. Miller;

The following is the City of Arvin's response to the compliance review with CalPERS. In general we are in agreement with the findings and have made changes to our system to comply with the suggested recommendations.

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

   We now include a detail listing of pay rates and positions in our budget documents, which is also posted on the WEB.

2. The Agency reported incorrect payroll information.

   We have instituted training for the individuals that are reporting payroll information so as to avoid this problem in the future.

3. The agency incorrectly paid and reported Employer Paid Member Contributions.

   The City has corrected this issue and is now reporting correctly.

4. Pay rate and earnings were not reported as required.

   We are reconciling the CalPERS contributions after every pay period to assure that the full amount is entered and paid timely.

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

   The City agrees with these findings and has implemented changes to assure compliance. In addition, the issue with contributions made for POST will be brought before the City Council for a retroactive agreement to be approved.

6. The Agency did not enroll eligible temporary/part-time employees into membership as required.

   The City agrees with this finding and has implemented changes to assure compliance.

7. The Agency did not offer optional membership to City Council Members.

   The City agrees with this finding and has implemented changes to assure compliance.

Phone (661) 854-3134
Fax (661) 854-0817

200 Campus Drive
P.O. Box 548
Arvin, California 93203
www.arvin.org

We would like to thank you for helping us making us aware of these issues, which allowed us to implement changes to assure that the City is in compliance with the regulations.

Sincerely,

Original Signed By Cecilia Vela

Cecilia Vela
Acting City Manager