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February 10, 2012

Employer Code: 0595
Job Number: P10-014

City of Baldwin Park
Lorena Quijano, Finance Director
14403 East Pacific Avenue
Baldwin Park, CA 91706

Dear Ms. Quijano:

Enclosed is our final report on the results of the public agency review completed for the City of Baldwin Park. Your agency's 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 Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Honorable Board Members, City of Baldwin Park

Office of Audit Services



Public Agency Review

City of Baldwin Park

Employer Code: 0595
Job Number: P10-014

February 2012

CITY OF BALDWIN PARK

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CITY OF BALDWIN PARK

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the City of Baldwin Park's (City) enrolled individuals, member compensation, required health and retirement documentation and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Uniform allowance and the monetary value of uniforms were not reported.
- Educational incentive pay was not reported.
- Holiday pay was not reported.
- The value of Employer Paid Member Contributions (EPMC) was incorrectly reported.
- Cell phone allowance was erroneously reported.
- Salary adjustment was incorrectly reported.
- Eligible part-time employees were not properly enrolled into CalPERS membership.
- Unused sick leave was not certified to CalPERS for retiring members.

The pertinent sections of the Government Code and California Code of Regulations for each finding are described in greater detail in Appendix C.

CITY BACKGROUND

The City of Baldwin Park was founded in 1887 and incorporated on January 25, 1956, under the general laws of the State of California. The City provides a full range of municipal services. Services provided include police, street maintenance and improvements, transit storm drains, recreation, public improvements, planning, zoning, and general administrative and support services. Memoranda of Understanding (MOU) and employment agreements outline City employees' salaries and benefits and state the terms of employment agreed upon between the City and its employees.

The City contracted with CalPERS effective September 1, 1965, to provide retirement benefits for local miscellaneous and local safety police employees. The City's current contract amendment identifies the length of the final compensation period as twelve months for the two coverage groups. The City contracted with CalPERS effective March 1, 1976, to provide health benefits to all eligible employees.

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SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the City's payroll reporting and member enrollment processes as these processes relate to the City's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from April 1, 2007 through March 31, 2010. The on-site fieldwork for this review was conducted from September 20, 2010 through September 23, 2010. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed in Appendix B.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: Compensation earnable was not reported.

- (a) Uniform allowance and the monetary value of uniforms were not reported.
- (b) Educational incentive pay was not reported.
- (c) Holiday pay was not reported.

Recommendations:

(a) The City should report uniform allowances and the monetary value of uniforms for all employees required to wear a uniform. This does not include items that are solely for personal health and safety such as protective vests, pistols, bullets and safety shoes.

(b) The City should report educational incentive pay as special compensation in accordance with the requirements of California Code of Regulations Section 571.

(c) The City should report holiday pay 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.

The City should work with CalPERS CASD to assess the impact of this non-reporting and determine what adjustments are needed to both active and retired members' accounts.

Conditions:

(a) Uniform Allowance

Employees in the following groups were required to wear a uniform.

- Public works
- Police
- Code-enforcement
- Recreation
- Maintenance

The City provided a uniform allowance for its police employees and provided uniforms for the other groups of employees; however, the City did not report the

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uniform allowance or the monetary value of the uniforms provided. Uniform allowance and the monetary value of uniforms provided is reportable compensation to CalPERS.

(b) Educational Incentive Pay

The City did not report educational incentive pay for a sampled employee. Specifically, the City did not report \$470.34 in educational incentive pay in service period 7/08-3. The educational incentive pay was paid in accordance with the employee's written labor agreement and should have been reported to CalPERS as special compensation.

(c) Holiday Pay

Police, recreation, and maintenance/public works employees were normally required to work on holidays regardless of their work schedule.

In service period 7/08-3, three sampled employees earned holiday pay of \$291.75, \$343.52 and \$474.85, respectively. This pay was in addition to the employees' regular earnings; however, the City did not report the holiday pay to CalPERS. Compensation paid to employees who are normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays is reportable compensation to CalPERS.

Criteria:

- (a) Government Code § 20630(a), § 20636(a), § 20636(c)(1), § 20636(c)(5), § 20636(c)(6)
California Code of Regulations § 571(a)(5)
- (b) Government Code § 20630(a), § 20636(a)
California Code of Regulations § 571(a) and 571(a)(2)
- (c) Government Code § 20630(a), § 20636(a), § 20636(c)(1), § 20636(c)(5), § 20636(c)(6)
California Code of Regulations § 571(a)(5)

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Finding 2: The value of Employer Paid Member Contributions (EPMC) was not reported in accordance with applicable government code sections and regulations.

Recommendation:

- The City should not report the value of EPMC unless a written labor policy or agreement includes language that specifically states the normal member contributions are to be paid by the City and reported as additional compensation.
- The City should ensure the amount or percent of EPMC reported is the amount or value identified in a City Council resolution that has been submitted to CalPERS.
- The City should submit EPMC corrections for active employees as requested by the CalPERS Payroll Unit.
- The City should report the value of EPMC on all compensation earnable excluding the special compensation of the monetary value of EPMC.
- The City should report the value of EPMC as special compensation, separate from a member's base payrate and regular earnings.

The City should work with CalPERS CASD to assess the impact of this incorrect reporting and non-reporting to determine what adjustments are needed to both active and retired members' accounts.

Condition:

The value of EPMC was not listed in a written labor agreement

The City reported the value of EPMC for sampled employees in service periods 7/08-3 and 3/10-4. The sampled employees included an employee from each of the City's bargaining groups.

The value of EPMC must be contained in a written labor policy or agreement to be reportable to CalPERS as compensation earnable. OAS checked to ensure City labor agreements contained language stating the member contributions were to be paid and reported as additional compensation. Although several City labor agreements contained the required information, OAS found no language in a written labor agreement stating that the City would report the value of EPMC

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for members of the Police Management Employees Association, the Police Association, executive employees, and part-time employees.

The value of EPMC was not reported in accordance with a City resolution

The City did not report the amount of EPMC identified in City Resolution #94-67 for the City's miscellaneous group of employees. The resolution, in effect since July 1, 1994, stated that the City elected to pay 100 percent of the miscellaneous groups' normal member contributions as EPMC, and that the City would report the same as compensation.

OAS reviewed the 7/08-3 and 3/10-4 service periods and found the City reported seven percent EPMC for sampled miscellaneous employees. However, seven percent was no longer the normal amount of member contributions. On July 1, 2005, the City amended the contract with CalPERS to provide a 2.7% @ 55 retirement formula for the City's miscellaneous group of employees. The change resulted in an increase in the miscellaneous employees' normal contribution rate from seven to eight percent of the employees' reportable earnings. The value or amount of EPMC identified in the resolution should be the same amount reported to CalPERS as compensation earnable.

The value of EPMC was not reported

In February 2008, the CalPERS Payroll Unit found that the City had not been reporting the value of EPMC on behalf of City employees. The CalPERS Payroll Unit promptly informed the City they were to:

- Immediately start reporting the value of EPMC.
- Calculate and report the value of EPMC for all active members for the previous three years.
- Correct compensation earnable reported in the final compensation period for City employees who retired after July 1, 1994, up to the current period.

OAS verified, on a sample basis, that the City reported the value of EPMC calculated on employees' regular earnings in service period 7/08-3, on regular earnings and special compensation in service period 3/10-4, and that the City submitted information to the CalPERS Payroll Unit to correct salaries reported for retirees during the final compensation period. However, OAS also found that:

- The City did not submit corrections for three of sampled active employees.
- The City did not report the value of EPMC on reportable special compensation paid to employees in service period 7/08-3.

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- The City did not correctly report the value of EPMC for employees in service period 7/08-3. Specifically, the City calculated the value of EPMC on employees' regular earnings, and incorrectly reported the value of EPMC as part of employees' base payrate and regular earnings. The value of EPMC should have been reported separately as special compensation.

Criteria:

Government Code § 20636(a), § 20636(b)(1), § 20636(c)(1), § 20636(c)(4)

California Code of Regulations § 571(a)(1), § 571(b), § 571(d)

CalPERS Procedures Manual, page 71

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Finding 3: Non-reportable compensation was erroneously reported.

Recommendation:

The City should immediately stop reporting employee cell phone allowances.

The City should work with CalPERS CASD to assess the impact of reporting non-reportable compensation and determine what adjustments are needed to both active and retired members' accounts.

Condition:

The City incorrectly reported a cell phone allowance for two sampled employees in service period 7/08-3. The cell phone allowance of \$34.62 was reported and combined with regular earnings. In addition, \$2.42, the value of EPMC calculated based on the cell phone allowance of \$34.62 was reported as regular earnings. Since cell phone allowance does not meet the definition of special compensation, it should not be reported to CalPERS.

Criteria:

Government Code § 20636(c)(5), § 20636(c)(6)

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Finding 4: The City incorrectly reported a retroactive earnings adjustment.

Recommendation:

The City should report the correct service periods involved in a retroactive adjustment. The transaction should have the member's new payrate and identify the total additional earnings and contributions for the correct periods.

The City should work with CalPERS CASD to assess the impact of the incorrect reporting and determine what adjustments are needed to the member's account.

Condition:

The City reported an incorrect amount of regular earnings for one sampled employee in service period 7/08-3. The City paid the employee \$14,940.60 in earnings coded as "Retro Merit Increase" and then reported a retroactive earnings adjustment in the amount of \$15,986.44 covering the first pay period in January 2008 (1/08-3) through the first pay period of July 2008 (7/08-3). The reported earnings of \$15,986.44 included the value of EPMC (calculated on the \$14,940.60). However, CalPERS records showed that the City previously reported the new payrate and earnings beginning in the second pay period of June 2008 (6/08-4). As a result, the City overstated the retroactive earnings paid to the employee by including the second pay period of June 2008 (6/08-4) and the first pay period of July 2008 (7/08-3) in the retroactive adjustment.

Criteria:

Government Code § 20630, § 20630(b)(1)

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Finding 5: The City did not comply with membership enrollment requirements.

- (a) A temporary/part-time employee with prior CalPERS membership was not enrolled into membership.
- (b) Temporary/part-time employees were not enrolled in a timely manner.
- (c) The City did not report earnings or submit contributions for temporary/part-time employees who were enrolled into membership after meeting CalPERS membership eligibility requirements.

Recommendations:

- (a) The City should ensure that employees are enrolled, earnings are reported and retirement contributions are submitted when qualification for CalPERS membership is met.
- (b) The City should enroll employees who reach 1,000 hours worked in a fiscal year no later than the first day of the first pay period of the month following the month in which 1,000 hours of service is completed.
- (c) The City should ensure part-time employees' earnings are reported, and retirement contributions are submitted, after an employee has been enrolled into CalPERS membership to ensure that employees receive appropriate service credit.

The City should work with CalPERS CASD to assess the impact of and to correct these non-reporting and membership issues.

Conditions:

- (a) Active Member Not Enrolled

One sampled part-time employee, enrolled into membership by a different CalPERS agency on June 13, 2004, worked for the other agency during fiscal year 2009/2010 and earned partial service credit. The City should have submitted an enrollment form, reported the employee's compensation earnable, and submitted retirement contributions to ensure that the employee received appropriate service credit.

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(b) Temporary/Part-time Employees Were Not Enrolled Timely

Three sampled temporary/part-time employees worked more than 1,000 hours in a fiscal year and were not enrolled in a timely manner.

- One employee reached the 1,000 hour threshold as of pay date January 15, 2008, and should have been enrolled no later than the first day of the first pay period of the following month. However, the City did not enroll the employee into CalPERS membership until February 1, 2010.
- The second employee reached the 1,000 hour threshold as of pay date January 14, 2010, and should have been enrolled no later than the first day of the first pay period of the following month. However, the City did not enroll the employee into CalPERS membership until March 1, 2010.
- The third employee reached the 1,000 hour threshold as of pay date February 25, 2010, and should have been enrolled no later than the first day of the first pay period of the following month. However, the City did not enroll the employee into CalPERS membership until April 1, 2010.

(c) Temporary/Part-time Employees Did Not Receive Service Credit

While checking temporary/part-time employees for prior CalPERS membership, OAS identified 17 employees enrolled by the City into membership during fiscal year 2009/2010. OAS also identified that compensation earnable was not reported for the employees in fiscal year 2009/2010, subsequent to their enrollment. Three of the 17 employees were selected for additional review. OAS verified that the sampled employees worked at the City after they were enrolled and confirmed that the employees' earnings and contributions were not reported to CalPERS. The City should have reported the employees' compensation earnable and submitted retirement contributions to ensure that the employees received appropriate service credit.

Note: The three employees identified in section (b) are the same employees identified in section (c). Earnings and contributions should have been reported on all compensation earnable starting with the first period in which they were first eligible for membership.

Criteria:

Government Code § 20044, § 20305(a), § 20305(a)(1), § 20305(a)(3)(B), § 20630(a) and (b)

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Finding 6: The City did not report retiring employees' unused sick leave to CalPERS for additional service credit.

Recommendation:

The City should ensure that retiring safety employees' unused sick leave is accurately certified to CalPERS so that the retiree receives the appropriate amount of service credit upon retirement. An amended certification form (PERS-BSD-200) should be submitted to CalPERS BNSD in order to adjust incorrect certifications.

Condition:

Effective July 1, 2005, credit for unused sick leave became a mandated benefit for the City's police safety group due to CalPERS risk pooling. During the on-site review, City staff explained that they were not aware of this mandated benefit and, consequently, had not reported unused sick leave balances for City police safety employees.

OAS reviewed the unused sick leave balance at retirement for two sampled employees. One employee retired with 618.5 hours of unused sick leave. The hours divided by eight converted to 77.313 days of unused sick leave. The second employee retired with 884.7 hours of unused sick leave. The hours divided by eight converted to 110.588 days of unused sick leave. OAS informed the City that unused sick days for police safety employees should be reported to CalPERS for additional service credit.

Criteria:

Government Code § 20965

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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 B. OAS limited the test of transactions to employee samples selected from the City's payroll and health 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.

Respectfully submitted,

Original Signed by Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: February 2012

Staff: Michael Dutil, CIA, Senior Manager

Diana Thomas, CIDA, Manager

Alan Feblowitz, Manager

Albert Sim

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APPENDIX A

BACKGROUND

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BACKGROUND

California Public Employees' Retirement System

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. CalPERS' Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Health Account Services section, as part of the CASD, provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

APPENDIX B

OBJECTIVES

CITY OF BALDWIN PARK

OBJECTIVES

The objectives of this review were to determine:

- Whether the City complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the City's retirement and health benefits contracts with CalPERS were followed.

This review covers the period of period April 1, 2007, through March 31, 2010.

SUMMARY

Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures. OAS also reviewed the following documentation:

- Contracts and contract amendments between the City and CalPERS
- Correspondence files maintained at CalPERS
- City Council minutes and City Council resolutions
- City written labor policies and agreements
- City salary, wage and benefit agreements including applicable resolutions
- City personnel records and employee hours worked records
- City payroll information including Summary Reports and PERS listings
- Other documents used to specify payrate, special compensation and benefits for all employees
- Various other documents as necessary

OAS performed the following procedures. A description of the procedure and the related sample sizes, sample periods and applicable findings for each procedure are indicated.

- ✓ Reviewed City payroll records and compared the records to data reported to CalPERS to determine whether the City correctly reported employees' compensation.

Sample size and period: Reviewed 15 employees covering two sampled service periods - the first service period in July 2008 (7/08-3) and the second service period in March 2010 (3/10-4).

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See Finding 1: (a) Compensation earnable was not reported for uniform allowance and the value of uniforms.
(b) Compensation earnable was not reported for educational incentive pay.
(c) Compensation earnable was not reported for holiday pay.

See Finding 2: The value of Employer Paid Member Contributions was not reported in accordance with applicable government code sections and regulations.

See Finding 3: Non-reportable compensation (cell phone allowance) was erroneously reported as compensation to CalPERS.

See Finding 4: Adjusted earnings were incorrectly reported.

- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to City public salary records to determine whether the payrates reported were accurate, properly authorized, and pursuant to publicly available pay schedules.

Sample size and period: Reviewed 11 sampled employees in the second service period in March 2010 (3/10-4).

No Finding

- ✓ Reviewed PERS listing reports to determine whether payroll reporting elements were reported correctly.

Sample size and period: Reviewed 15 sampled employees in the second service period in June 2010 (6/10-4).

No Finding

- ✓ Reviewed the City's enrollment practices pertaining to temporary/part-time employees, independent contractors, optional members, and retired annuitants to determine whether individuals met CalPERS membership eligibility requirements.

Temporary/part-time employee sample size and period: Reviewed a sample of one employee for the 1,000 hour test covering fiscal year 2008/2009 and a sample of 15 employees for the 1,000 hour test covering fiscal year 2009/2010.

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Reviewed a sample of 30 employees for the prior membership test. Reviewed a sample of three employees for earnings and contributions reporting.

See Finding 5: (a) A temporary/part-time employee with prior CalPERS membership was not enrolled into membership.
(b) Temporary/part-time employees were not enrolled in a timely manner.
(c) The City did not report earnings or submit contributions for temporary/part-time employees who were enrolled into membership after meeting CalPERS membership eligibility requirements.

Independent contractor sample size and period: Reviewed a sample of six independent contractors covering calendar years 2008 and 2009.

No Finding

Elected officials sample size and period: Reviewed sample of one elected official and two appointed officials covering review period.

No Finding

Retired annuitant sample size and period: Reviewed a sample of one retired annuitant in fiscal year 2007/2008.

No Finding

- ✓ Reviewed the City's calculation and reporting of unused sick leave balances.

Sample size and period: Reviewed two retiring members covering the review period for reporting of unused sick leave.

See Finding 6: The City did not report retiring employees' unused sick leave to CalPERS for additional service credit.

- ✓ Reviewed health records to determine whether the City properly enrolled eligible individuals into CalPERS Health Benefits Program.

Sample size and period: Reviewed 10 employees covering the review period.

No Finding

APPENDIX C

CRITERIA

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CRITERIA

Government Code § 20044, defines a fiscal year as, “Any year commencing on July 1st and ending with June 30th next following.”

Government Code § 20049, states:

"Labor policy or agreement" means any written policy, agreement, memorandum of understanding, legislative action of the elected or appointed body governing the employer, or any other document used by the employer to specify the payrate, special compensation, and benefits of represented and unrepresented employees.

Government Code § 20305(a), states, in part:

An employee whose appointment or employment contract does not fix a term of full-time, continuous employment in excess of six months is excluded from this system unless:

(1) He or she is a member at the time he or she renders that service and is not otherwise excluded pursuant to this article or by a provision of a contract....

(3)(B) The person completes...1,000 hours within the fiscal year, in which case, membership shall be 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.

Government Code § 20630(a), states, in part:

As used in this part, “compensation” means the remuneration paid out of funds controlled by the employer in payment for the member's services performed during normal working hours....

Government Code § 20630(b), states:

When compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid. Compensation shall be reported in accordance with Section 20636 and shall not exceed compensation earnable, as defined in Section 20636.

Government Code § 20636(a), defines compensation earnable by a member as, “The payrate and special compensation of the member.”

Government Code § 20636(b)(1), states:

Payrate means 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

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employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules. Payrate for a member who is not in a group or class, means the monthly rate of pay or base pay of the member, paid in cash and pursuant to publicly available pay schedules, for services rendered on a full-time basis during normal work hours, subject to the limitations of paragraph (2)(e).

Government Code § 20636(c)(1), states:

Special compensation of a member includes a payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions.

Government Code § 20636(c)(4), states:

Special compensation may include the full monetary value of normal contributions paid to the board by the employer, on behalf of the member and pursuant to Section 20691, if the employer's labor policy or agreement specifically provides for the inclusion of the normal contribution payment in compensation earnable.

Government Code, § 20636(c)(5), states:

The monetary value of any service or noncash advantage furnished by the employer, except as expressly and specifically provided in this part, shall not be special compensation unless regulations promulgated by the board specifically determine that value to be special compensation.

Government Code § 20636 (c)(6), states:

The board shall promulgate regulations that delineate more specifically and exclusively what constitutes "special compensation" as used in this section.

Government Code § 20965, states:

A local miscellaneous member and local safety member, whose effective date of retirement is within four months of separation from employment with the employer which granted the sick leave credit, shall be credited at his or her retirement with 0.004 year of service credit for each unused day of sick leave certified to the board by his or her employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member's retirement benefit. Reports of unused days of sick leave shall be subject to audit and retirement benefits may be adjusted where improper reporting is found.

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California Code of Regulations § 571(a), provides a list that exclusively identifies and defines special compensation items for members employed by a contracting agency and standards to which compensation must conform in order for items of special compensation to be used to calculate final compensation for an individual member.

California Code of Regulations § 571(a)(1), states:

Value of Employer-Paid Member Contributions (EPMC) - The full monetary value of employer-paid member contributions (EPMC) paid to CalPERS and reported as an item of special compensation on behalf of all members in a group or class.

The value of EPMC is calculated on all "compensation earnable" excluding the special compensation of the monetary value of EPMC paid to CalPERS by the employer under Government Code section 20636(c)(4) thus eliminating a perpetual calculation.

(A) A resolution or ordinance of the governing body must be provided to CalPERS indicating the group or class, effective date, and the percent or amount of EPMC being paid and reported as an item of special compensation. The resolution or ordinance must be formally adopted by the employer's governing body, and submitted to CalPERS for review and approval.

California Code of Regulations § 571(a)(2), identifies educational incentive as: an item of special compensation.

California Code of Regulations § 571(a)(5), defines uniform allowance as:

Compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing, including clothing made from specifically designed protective fabrics, which is a ready substitute for personal attire the employee would otherwise have to acquire and maintain. This excludes items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes.

California Code of Regulations § 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. 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.

For those employees with written labor agreements providing holiday credit and allowing employees to cash out accumulated holiday credit, the cash out must be done at least annually and reported in the period earned. If a

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written labor agreement allows an employee to accumulate holiday pay beyond the year in which it is earned and an employee later elects to cash out accumulated holiday credit, it is not compensation for PERS purposes.

California Code of Regulations § 571(b), states, in part:

The Board has determined that all items of special compensation listed in section (a) are: (1) Contained in a written labor policy or agreement.

California Code of Regulations § 571(d), states:

If an item of special compensation is not listed in subsection (a) or is out of compliance with any of the standards in subsection (b) as reported for the individual, then it shall not be used to calculate final compensation for that individual.

CalPERS Procedures Manual, page 71, states:

All special compensation is required to be reported separately as special compensation as it is earned.

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APPENDIX D

CITY'S RESPONSE



January 26, 2012

Margaret Junker, Chief
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Junker,

The city has received the draft report pertaining to your review of the City of Baldwin Park. We understand the scope of your review was limited to sampled records and processes from April 1, 2007 through March 31, 2010. Based on our review, the majority of these findings refer to reports submitted in 2008, in which there was a transition in staff. Subsequent to that period the city has tried to maintain consistency in payroll staff and transitioned into a new accounting, human resources and payroll system (GEMS); this allows controls to be set up in order for reportable compensation to be reported correctly. Below please find a brief description of the finding along with the city's response.

FINDING#1 – Compensation earnable was not reported

- (a) Uniform allowance and the monetary value of uniforms were not reported.
- (b) Educational incentive pay was not reported.
- (c) Holiday pay was not reported.

Response to FINDING#1

- (a) The city will be working with CalPERS, its bargaining units, employees (public works, police, code-enforcement, recreation and maintenance), and GEMs to develop a process to report uniform allowance and the value of uniforms for all employees required to wear a uniform. The city understands that this does not include items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes.

- (b) The city has determined that this was an isolated instance (in 2008) for the sampled employee and has submitted corrections to CalPERS to correct the reporting of the education incentive. The pay code for this education incentive has been set up as compensation reportable to PERS in the new GEMS system and is being reported correctly.
- (c) The city will develop a process to report "Holiday Pay" for employees that receives additional compensation in addition to the employees' regular earnings for working on a holiday. Currently only police officers receive "Holiday Pay" or additional earnings over above their normal monthly rate of pay.

FINDING#2 – The value of the Employer Paid Member Contributions (EPMC) was not reported in accordance with applicable government code sections and regulations.

Response to FINDING#2

The value of EPMC was not in a written labor agreement

In the past, the value of EPMC has been reported for all eligible employees enrolled in CalPERS. The City will work with the sworn employee bargaining units, contract employees, and part-time employees in order to update labor agreements with the required language, if necessary. The city understands it should not report the value of EPMC unless a written labor policy or agreement includes language that specifically states that "the normal member contributions are to be paid by the City and reported as additional compensation." The City will work with CalPERS to determine what corrections are necessary to members' accounts, if any.

The value of EPMC was not reported in accordance with a City resolution

The city was not aware that when the city amended the contract to provide a 2.7% @ 55 retirement formula for the miscellaneous group that it resulted in an increase in the employees' normal contribution rate from seven percent to eight percent of the employees' reportable earnings. The city has begun reporting the correct percentage to CalPERS.

The value of EPMC was not reported

The city previously reported EPMC on the same line item as the employees' base pay and was not aware that it had to be reported separately. Once CalPERS informed the city, the city began reporting it correctly. In addition, the City has continuously worked closely with GEMS, its payroll/human resources system, to ensure that reports submitted have the information required. The city submitted adjustments as requested to CalPERS during the 2008 year. In order to confirm that no other reporting was needed, the city also contacted CalPERS during a miscellaneous employee retirement in 2010 and verified that no additional corrections were required (see attached email).

FINDING#3 – Non-reportable compensations was erroneously reported.

Response to FINDING#3

The city has determined that this was an isolated instance (in 2008) for the two sampled employees and has submitted corrections to CalPERS to correct the reporting of the cell phone allowance. The pay code for cell phone allowance has been set up as “non” reportable compensation in the new GEMS system and is being reported correctly.

FINDING#4 – The City incorrectly reported a retroactive earnings adjustment.

Response to FINDING#4

The city has researched the adjustment that was previously submitted to CalPERS (Service Period 03/09-3 Special), which adjusted the retro earnings for service period 07/08-3 for the employee. The city has determined that another adjustment was needed based on information provided by CalPERS and has submitted the correction to CalPERS. The city will work with CalPERS to ensure that this and future corrections are submitted correctly in the new CalPERS system.

FINDING#5 – The City did not comply with membership enrollment requirements.

- (a) A temporary/part-time employee with prior CalPERS membership was not enrolled into membership.
- (b) Temporary/part-time employees were not enrolled in a timely manner.
- (c) The City did not report earnings or submit contributions for temporary/part-time employees who were enrolled into membership after meeting CalPERS membership eligibility requirements.

Response to FINDING#5

- (a) The city has developed a process to check/verify if new temporary/part-time employees have prior CalPERS membership with another CalPERS agency. This process will ensure that if eligible, members are enrolled, that earnings are reported and that retirement contributions are submitted timely; the member referred to in the finding has been enrolled in CalPERS.
- (b) The city has developed a process to track hours worked in order to determine when new temporary/part-time employees should be enrolled into membership; eligible temporary/part-time employees have been enrolled into CalPERS.
- (c) The City is submitting the earnings and contributions for temporary/part-time employees who were enrolled into membership. The city has developed a

process to report earnings and contributions for temporary/part-time employees who have been enrolled in CalPERS simultaneous with all full time employees.

FINDING#6 – The City did not report retiring employees' unused sick leave to CalPERS for additional service credit.

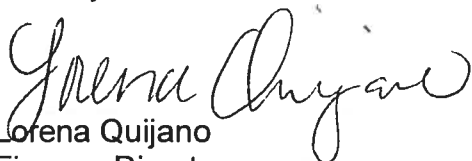
Response to FINDING#6

The city is now reporting retiring sworn employees' unused sick leave to CalPERS for additional service credit. The City was not aware that this benefit was automatically added in 2005 as a mandated benefit to those bargaining units in the CalPERS risk pool, which includes the city's safety group. The City will submit an amended form (PERS-BSD-200) to CalPERS in order to adjust the certifications previously submitted.

The City of Baldwin Park is committed to its employees and has been improving its processes, including the purchase of a new payroll/human resources system, in order to set controls that will allow us to report information correctly to CalPERS. We understand that we must continue to work with CalPERS to ensure that all data is captured in the payroll reports that are submitted.

Please let us know if you have any questions or need additional information regarding our responses.

Thank you,



Lofena Quijano
Finance Director

Cc: Vijay Singhal, Chief Executive Director
Leticia Lara, Human Resources Manager
Rose Tam, Assistant Accounting Manager
Alan Feblowitz, CalPERS Representative

Attachment: November 3, 2010 email from CalPERS