Office of Audit Services

Public Agency Review

City of California City

Employer Code: 0703
CalPERS ID: 6020344436
Job Number: P13-020

August 2014

California Public Employees' Retirement System
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August 29, 2014

Employer Code: 0703
CalPERS ID: 6020344436
Job Number: P13-020

Tom Weil, City Manager
City of California City
21000 Hacienda Blvd
California City, CA 93505

Dear Mr. Weil:

Enclosed is our final report on the results of the public agency review completed for the City of California City (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 Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: City Council, City of California City
Rudy Hernandez, Finance Director
Mary Metzger, Account Clerk
Mary Roubanis, Human Resources
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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RESULT IN BRIEF

The primary objective of our review was to determine whether the City of California City (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 all the requirements of the CCR.
- Special compensation was not reported as required by CCR Section 571.
- Retroactive salary adjustments were incorrectly reported.
- Payrates were incorrectly reported.
- Eligible part-time employees were not enrolled into membership as required.
- A retired annuitant was unlawfully employed.
- Optional members were not offered 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, 1967 to provide retirement benefits for miscellaneous employees, police and fire fighters with the most recent amendment effective December 18, 2012. 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 July 1, 2011 through June 30, 2013. The on-site fieldwork for this review was conducted from December 4-6, 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: Agency's pay schedule did not meet all the requirements of CCR Section 570.5.

Condition:

The Agency's pay schedule in effect during the review period was not duly approved and adopted by the Agency's governing body and did not identify the position title for every employee position. Instead the Agency's pay schedule was approved by the City Manager. 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).

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Recommendation:

The Agency should ensure its pay schedules meet all 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(a), § 20636(b)(1), § 20636(d)
CCR: § 570.5

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

Condition:

A. The Agency did not report the Fair Labor Standards Act (FLSA) premium pay as special compensation for an employee. The Agency paid an employee 12 hours of FLSA premium pay for the pay period ending August 26, 2013. However, the Agency did not report the FLSA premium pay as special compensation. The FLSA threshold is 212 hours for firefighters working a 28-day cycle. Therefore, premium pay for any hours worked between 212 and 240 hours is considered FLSA premium pay and should be reported as special compensation.

B. The Agency did not report the value of uniforms as special compensation for Public Work employees. The Agency required and provided uniforms to Public Work employees. However, the conditions for payment of the uniforms, including, but not limited to, eligibility for, and amount of, was not reported and included in the written labor policy as required by CCR Section 571. In addition, the Agency reported uniform allowance for firefighters but did not include the monetary value for the purchase, rental and/or maintenance of required clothing or its conditions for payment in its written labor policy as required.

C. The Agency did not report Holiday Pay, a statutory item of special compensation, for two police officers. Police officers required to work during a scheduled holiday are compensated at two and a half times the regular rate of pay. OAS identified one police officer who received premium Holiday Pay for the pay period ending July 15, 2013, but the Agency did not report it as special compensation. The Agency's written labor agreement for police officers also provides 13 eight-hour paid holidays at the regular rate of pay. OAS identified a police officer who was compensated for an eight hour holiday at the regular rate of pay, but the Agency did not report the Holiday Pay as special compensation. Holiday Pay for employees who are normally required to work on an approved holiday, in positions that require scheduled staffing without regard to the holiday, must be reported to CalPERS as special compensation.

D. The Agency incorrectly reported Uniform Allowance, an item of special compensation, as a lump sum instead of as earned for three police officers. Specifically, the Agency paid $600.00 in Uniform Allowance bi-annually in accordance with the Agency's written labor agreement. However, the Agency incorrectly reported the Uniform Allowance in the pay periods the

uniforms were purchased rather than as earned. Pursuant to Government Code Section 20636(c)(3), the Agency shall identify the pay period(s) in which compensation was earned.

E. The Agency incorrectly included items of special compensation with base payrate for eleven employees in the pay period ending June 13, 2013. Specifically, the Agency included items such as Paramedic Pay, various types of Education Pay, Longevity Pay, Temporary Upgrade Pay, and Peace Officer Standard Training Certificate Pay. These items are considered special compensation and must be reported separate from base payrate and regular earnings.

F. The Agency did not report Shift Differential, an item of special compensation, in the period it was earned. Specifically, the Agency paid and reported Shift Differential of $14.33 in pay period ending June 17, 2013. However, the Shift Differential was earned in the previous pay period. Pursuant to Government Code Section 20636(c)(3), the Agency shall identify the pay period(s) in which compensation was earned.

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, available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, historically consistent with prior payments for the job classification, not paid exclusively in the final compensation period, and not final settlement pay.

Recommendation:

The Agency should ensure all items of special compensation are correctly reported when earned and contained in a written labor policy or agreement as required by the CCR.

The Agency should discontinue reporting special compensation with base payrate and regular earnings.

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
CCR: § 571

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3: The Agency incorrectly reported retroactive salary adjustments.

Condition:

The Agency incorrectly reported retroactive salary adjustments for four employees. Specifically, the Agency approved salary increases in late November 2012 that was retroactive to August 4, 2012 for one employee, August 9, 2012 for another employee, and October 14, 2012 for two employees. The Agency reported the employees' adjustment in my|CalPERS with a start date of October 23, 2012 and an end date of November 5, 2012 for all four employees. In addition, the Agency incorrectly reported the amount of the employees' retroactive earnings as the employees' payrate. For example, the Agency reported retroactive earnings for one employee in the amount of $383.54 and incorrectly reported the hourly payrate as $383.54.

Recommendation:

The Agency should ensure that retroactive salary adjustments are reported correctly and in the period earned.

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, § 20630(b), § 20636(b)(1)

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4: The Agency reported incorrect payrates.

Condition:

The Agency reported incorrect payrates for one employee in the pay period ending June 17, 2013. Specifically, the Agency reported payrates that were not listed on the Agency's pay schedule. For example, the payrate for the Public Works Director was listed in the pay schedule as $45.97 per hour; however, the Agency reported an hourly payrate of $48.27. Payrate is an important factor in computing a member's retirement allowance because the service credit and final compensation are directly related to the payrate and earnings reported for a member.

Recommendation:

The Agency should ensure payrates are reported pursuant to an authorized pay schedule that meets the requirements of CCR Section 570.5.

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
CCR: § 570.5

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

Condition:

The Agency did not enroll three part-time employees when membership eligibility requirements were met.

- One employee exceeded 1,000 hours in the pay period ending June 8, 2012. The Agency did not enroll the employee until January 29, 2013. The Agency should have enrolled the employee effective no later than the first pay period in July 2012.
- Another employee exceeded 1,000 hours by June 30, 2012, but was paid in July 2012. The Agency enrolled the employee on January 29, 2013. The Agency should have enrolled the employee no later than the first pay period in July 2012.
- Lastly, an employee exceeded the 1,000 hour threshold in the pay period ending March 29, 2013. The Agency enrolled the employee on August 13, 2013. However, the employee should have been enrolled no later than the first pay period in April 2013.

Employees who complete 1,000 hours within a fiscal year shall 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 and enroll employees when membership eligibility requirements are met.

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: § 20044, § 20160, § 20305

6: A retired annuitant was unlawfully employed.

Condition:

A retired annuitant exceeded the 960-hour threshold in fiscal year 2011-12 and was not reinstated from retirement. The Agency employed a CalPERS retiree through a temporary employment agency. This retired annuitant worked 961.25 hours as of June 30, 2012 but was not reinstated. Government Code Section 21224 limits the number of hours a retired person works to no more than 960 hours each fiscal year.

Government Code Section 21220 addresses the conditions and consequences of unlawful employment of a person who has been retired under this system. The Government Code states that any retired member employed in violation of this article shall:

(1) Reimburse this system for any retirement allowance received during the period or periods of employment that are in violation of law;
(2) Pay to this system an amount of money equal to the employee contributions that would otherwise have been paid during the period or periods of unlawful employment plus interest thereon;
(3) Contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the member is determined by the executive officer to be at fault.

The Government Code also states that any public employer that employs a retired member in violation of this article shall:

(1) Pay to this system an amount of money equal to employer contributions that would otherwise have been paid for the period(s) of time that the member is employed in violation of this article, plus interest thereon;
(2) Contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the employer is determined by the executive officer of this system to be at fault.

Recommendation:

The Agency should monitor the hours worked by retired annuitants to ensure that the 960-hour threshold is not exceeded in a fiscal year without reinstating retired annuitants into membership.

OAS recommends the Agency work with CalPERS Benefits Services Division (BNSD) to determine the appropriate course of action.

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Criteria:

Government Codes: § 20160, § 21202, § 21220, § 21221, § 21224

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7: The Agency did not advise elected City Council Members of their optional membership rights upon election.

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 officials 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 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
Edward Fama, Auditor
Jose Martinez, 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.

This review covers the period of July 1, 2011 through June 30, 2013.

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.

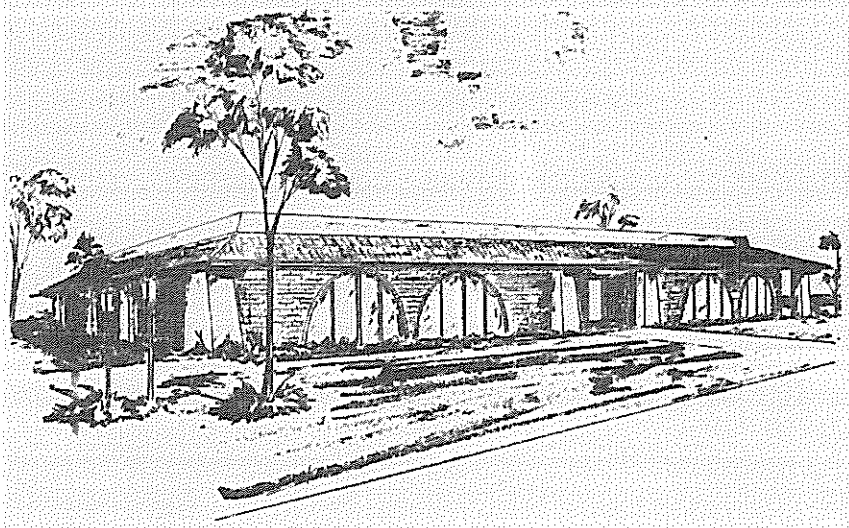
- ✓ Reviewed the Agency's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.

- ✓ 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



Incorporated 1965

City of California City

City Hall

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21000 HACIENDA BLVD. - CALIFORNIA CITY, CALIFORNIA 93505

July 17, 2014

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

Re: Public Agency Review (Payroll) Employer Code: 0703/Calpers ID: 6020344436/Job Number: P13-020

Dear Ms. Junker,

The City of California City has reviewed the draft report on the compliance review conducted by your agency. We are more than happy to work to clarify as well as rectify the seven discrepancies noted with the CalPERs Customer Account Services Division.

I would like to take a few moments to comment on Items 1 and 4 through 7.

Item 1: The Agency's pay schedule did not meet requirements of CCR 570.5.

This has been corrected with the City's pay schedules going before the City Council at their July 15th meeting and being approved by resolution #07-14-2569.

Item 4: The Agency reported incorrect payrates

This is true but the individual in question was under a special contract that allotted for the difference in pay from our printed pay schedule. This contract has been recently terminated and the Public Works Director position now falls in our guidelines of the approved salary schedule.

Item 5: The Agency did not enroll eligible part-time employees into membership as required.

This was corrected for the three individuals noted. However, two have left the employment of the City.

Item 6: A retired annuitant was unlawfully employed.

The Agency contracts with Sage Staffing to provide Human Recourses services on a part-time basis for the City. There was an unintentional miscalculation in the hours worked which led to the 1.25 hour error that exceeded the annual allotted time. There has been no previous errors prior too or after this issue occurred.

Item 7: The Agency did not advise Elected City Council Members of their optional membership rights upon election.

The City was not aware of this requirement and has since extended this offer to all Council and Commission members to move from PARS to PERS. All have declined this offer.

Once again we look forward to working with CASD to clarify and correct the discrepancies noted and want to "Thank" Mr. Fama for his professionalism and assistance while conducting this audit. Mr. Rudy Hernandez, Finance Director, will be our Point of Contact for CSDR and can be reached at 760-373-7167 or by email at findir@californiacity.com .

Sincerely,

Tom Weil
City Manager