Office of Audit Services

Public Agency Review

City of Citrus Heights

CalPERS ID: 5727496281
Job Number: P13-075

October 2014

California Public Employees' Retirement System
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October 24, 2014

CalPERS ID: 5727496281
Job Number: P13-075

Ronda Rivera, Human Resources and City Information Director
City of Citrus Heights
6237 Fountain Square Drive
Citrus Heights, CA 95621

Dear Ms. Rivera:

Enclosed is our final report on the results of the public agency review completed for the City of Citrus Heights (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 4. We appreciate the additional information regarding Finding 4 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 Citrus Heights
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 Citrus Heights (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 of the Government Code and CCR requirements.
- Special compensation was not reported as required by CCR Section 571.
- Compensation was not reported as earned.
- Unused Sick Leave was incorrectly reported.

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 October 16, 1999, to provide retirement benefits for local safety (police) and 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 these processes relate 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, 2010 through June 30, 2013. The employees selected were not subject to the Public Employees' Pension Reform Act of 2013. The on-site fieldwork for this review was conducted from January 21- 24, 2014. 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: Pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedule for the fiscal year 2012-13 was not properly approved by the Council. In addition, the pay schedule did not identify all positions for all employees. Specifically, City Council members were not listed on the pay schedule.

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 pay rate is limited to the amount identified on a publicly available pay schedule. Per CCR Section 570.5, a pay schedule, among other things, must:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws.
- Identify the position title for every employee position.
- Show the payrate as a single amount or multiple amounts within a range for each identified position.
- Indicate the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually.
- Be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's internet website.
- Indicate an effective date and date of any revisions.
- Be retained by the employer and available for public inspection for not less than five years.
- 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 schedule meets all the Government Code and CCR requirements.

The Agency should work with CalPERS Customer Account Services Division (CASD) to determine the impact of the reporting issues and make the necessary adjustments to active and retired member accounts, pursuance to Government Code Section 20160.

Criteria:

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

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

Condition:

A. The Agency incorrectly reported Acting Assignment Pay as regular earnings instead of separately as special compensation in the pay period ending June 29, 2013. As a result of this incorrect reporting, regular earnings were overstated and special compensation was understated.

B. In addition, the Agency paid and reported an increase in Education Incentive in regular earnings in the pay period ending June 29, 2013 instead of separately as special compensation. As a result of this incorrect reporting, regular earnings were overstated and special compensation was understated.

C. The Agency did not report the value for the purchase and maintenance of uniforms provided to sworn police, community service officers, dispatch and records, neighborhood enhancement and animal control officers.

D. The Agency reported uniform allowance provided to investigative officers. The Agency compensated the investigative officers $850 in July 2012 to purchase civilian attire based on assignment. The purchase and maintenance of plain clothes is not reportable.

Recommendation:

The Agency should report special compensation items separately from regular earnings.

The Agency should report the monetary value of uniforms as special compensation and ensure the conditions for payment are contained in a written labor policy.

The Agency should discontinue reporting uniform allowance provided to investigative officers.

The Agency should work with CalPERS CASD to determine the impact of the issue and make the necessary adjustments to active and retired member accounts, pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636(a), § 20636(b)(1), §20636(c)
CCR: § 571

3: Compensation was not reported as earned.

Condition:

The Agency incorrectly reported a Council member's earnings of $600.00 bi-weekly in the pay period ending June 29, 2013. Council member earnings are reported on a monthly basis. As a result, the Agency understated a Council member's service credit.

Recommendation:

The Agency should report compensation in the period earned.

The Agency should work with CalPERS CASD to determine the impact of the issue and make the necessary adjustments, pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20630

4: The Agency certified an incorrect sick leave balance.

Condition:

When certifying a retiring member's sick leave days, the Agency incorrectly included annual leave hours in the sick leave balance. Specifically, the Agency certified 248.37 hours which equated to 31.05 days for the retiring member. OAS determined that 98.54 hours of annual leave hours were incorrectly included in the sick leave balance at the time of retirement. As a result, the retiring member had an actual sick leave balance of 149.83 hours which equated to 18.73 days. Therefore, the Agency overstated the number of sick leave days for the retiree.

Recommendation:

The Agency should ensure the correct amount of unused sick leave for retiring members is reported to CalPERS.

The Agency should work with CASD to assess the impact of this incorrect reporting and make the necessary adjustments to the retired member's account, pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 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 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
Alan Feblowitz, CFE, Manager
Alicia Watts, Staff Program Evaluator
Dennis Szeto

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, 2010 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'S WRITTEN RESPONSE

LCW LIEBERT CASSIDY WHITMORE

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mnakano@lcwlegal.com

July 15, 2014

VIA CERTIFIED U.S. MAIL

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

Re: ***Response by City of Citrus Heights to June 20, 2014 Draft Audit Report***
Client-Matter: CI060/001

Dear Ms. Junker:

The City of Citrus Heights ("City") is in receipt of the June 20, 2014 draft audit report, prepared by the California Public Employees' Retirement System ("CalPERS"). The City was graciously provided an extension until July 17, 2014 to provide this response to the draft audit report. The City intends to work with CalPERS staff to make any amendments required. However, the City does dispute one of the Findings and Recommendations. The City's rationale is set forth below.[1]

FINDINGS, RECOMMENDATIONS AND CITY'S RESPONSE

In its draft audit report, CalPERS made the following proposed findings and corresponding recommendations, which are set forth below followed by the City's response to each finding and recommendation.

Finding 1: Pay schedule did not meet all of the requirements of CCR Section 570.5.

Recommendation:

The Agency should ensure its pay schedule meets all the CCR requirements.

The Agency should work with CalPERS Customer Account Services Division ("CASD") to determine the impact of the reporting issues and make the necessary adjustments to active and retired member accounts, pursuance to Government Code Section 20160.

[1] The City believes that it is premature to file a formal appeal at this time as no final decision has been made. However, in the event that CalPERS is of the belief that its draft audit report triggers any timeline to file a formal appeal, CalPERS may consider this response the City's formal appeal of its decision and request for an administrative appeal pursuant to Title 2, California Code of Regulations, section 555.1.

City's Response to Finding and Recommendation 1:

The City agrees with this CalPERS finding and recommendation. The City has already taken steps to comply with Title 2, California Code of Regulations, section 570.5. Specifically, the City's City Council adopted a pay schedule, effective June 12, 2014, at its June 12, 2014 meeting and the pay schedule has been published on the City's website. (*See* http://www.citrusheights.net/docs/payrate_schedule_06-12-14_approved.pdf.) The City has added City Council members to the pay schedule.

The City will work with CalPERS' staff to make any additional necessary changes.

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

Recommendation:

The Agency should report special compensation items separately from regular earnings.

The Agency should report the monetary value of uniforms as special compensation and ensure the conditions for payment are contained in a written labor policy.

The Agency should discontinue reporting uniform allowance provided to investigative officers.

The Agency should work with CalPERS CASD to determine the impact of the issue and make the necessary adjustments to active and retired member accounts, pursuant to Government Code Section 20160.

City's Response to Finding and Recommendation 2:

A. Special Compensation Reporting

The City agrees with CalPERS' finding and recommendation. The incorrect reporting of Acting Assignment Pay and Education Incentive were one-time errors that have subsequently been corrected. The City will work with CalPERS' staff to make any further necessary corrections.

B. Reporting Monetary Value of Uniforms

The City agrees with CalPERS' finding and recommendation. The City will work with CalPERS' staff to make any necessary corrections.

C. Investigative Officer Uniform Allowance Reporting

The City agrees with CalPERS' finding and recommendation. The City has discontinued reporting investigative officer uniform allowance, effective July 1, 2014. The City will work with CalPERS' staff to make any necessary corrections.

Finding 3: Compensation was not reported as earned.

Recommendation:

The Agency should report compensation in the period earned.

The Agency should work with CalPERS CASD to determine the impact of the issue and make the necessary adjustments, pursuant to Government Code Section 20160.

City's Response to Finding and Recommendation 3:

The City agrees with CalPERS' finding and recommendation. The City reported Council members' earning as $300.00 bi-weekly for the pay period ending June 29, 2013. Effective the pay-period ending July 31, 2014, Council members' earnings will be reported as $600.00 per month. The City will work with CalPERS' staff to make any necessary corrections.

Finding 4: The Agency certified an incorrect sick leave balance.

Recommendation:

The Agency should ensure the correct amount of unused sick leave for retiring members is reported to CalPERS.

The Agency should work with CASD to assess the impact of this incorrect reporting and make the necessary adjustments to the retired member's account, pursuant to Government Code Section 20160.

City's Response to Finding and Recommendation 4:

The City disagrees with CalPERS' finding and recommendation. The City reports Long Term Medical Leave hours as unused sick leave pursuant to Government Code section 20965. The City contends that accrued Annual Leave hours that are added to the employee's Long Term Medical Leave hours are reportable as unused sick leave pursuant to Government Code section 20965.

The City provides employees with Annual Leave and Long Term Medical Leave. The City mandates that Annual Leave may only be used, in part, for "[a]n absence caused by illness or injury to the employee" and "[d]octor, dental and vision appointments for the employee," and when "[t]he employee's presence is required due to the illness or medical appointment of an immediate family member." (*See* City of Citrus Heights Personnel Rules and Regulations, Chapter 4, Section 4.1.) The City also requires employees to use Annual Leave for illnesses and injuries for the first three days an employee is absent from work due to illness or injury. (*See* City of Citrus Heights Personnel Rules and Regulations, Chapter 4, Section 4.2.) There is a maximum accrual amount on an employee's Annual Leave. Once the maximum amount is reached, any additional Annual Leave hours earned are added to the employee's Long Term Medical Leave hours. Thus, Annual Leave hours added to an employee's Long Term Medical

Leave should be counted as unused sick leave because one of the limited uses of Annual Leave time is for absences "caused by illness or injury to the employee."

Accordingly, in 2010 the City was informed orally by CalPERS' staff related to an inquiry regarding an employee who was in the process of an employer initiated Industrial Disability Retirement (IDR), that the effective date of the IDR would not take place until all accrued sick leave hours, including Annual Leave, had been exhausted. CalPERS opined that because the City's Personnel Rules and Regulations identified Annual Leave hours as eligible for use for employee injuries or illnesses, the City must count the Annual Leave hours as sick leave hours. As a result, all accrued hours for both Annual Leave and Long Term Medical Leave would need to be exhausted before the IDR would become effective. In reliance on CalPERS' instructions, the City acted accordingly and treated all Annual Leave hours as well as all Long Term Medical Leave hours as sick leave.

Therefore, because Annual Leave time is used for leave related to the "illness or injury to the employee" and the City relied upon CalPERS prior direction to treat Annual Leave time and Long Term Medical Leave as sick leave, the City contends it appropriately reported unused sick leave for retiring members.

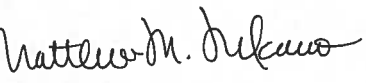
CONCLUSION

The City objects to one of CalPERS' findings and recommendations, as described above. However, the City is willing to work with CalPERS to provide any documentation or data it may need with regard to that item. For the rest of CalPERS' findings and recommendations, the City will work with CalPERS personnel to make any necessary corrections.

Please contact me if you have any questions.

Sincerely,

LIEBERT CASSIDY WHITMORE



Matthew M. Nakano

MMN:rrf

cc: Ronda Rivera, City of Citrus Heights, Human Resources/City Information Director
Alicia Watts, CalPERS (via e-mail only)
Cheryl Dietz, CalPERS (via e-mail only)