

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Gardena**

**CalPERS ID: 4916209368**  
**Job Number: P15-001**

**March 2016**



California Public Employees' Retirement System  
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March 30, 2016

CalPERS ID: 4916209368  
Job Number: P15-001

Mitchell Lansdell, City Manager  
City of Gardena  
1700 W 162nd St.  
Gardena, CA 90247-3778

Dear Mr. Lansdell:

Enclosed is our final report on the results of the public agency review completed for the City of Gardena (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 3B, 5 and 7. We appreciate the additional information regarding these findings that you provided in your response. After consideration of this information, the findings remain. However, we clarified and moved Finding 3B to Finding 4C.

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. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief  
Office of Audit Services

Enclosure

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

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# CITY OF GARDENA

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## RESULTS IN BRIEF

The objective of our review was to determine whether the City of Gardena (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), 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 requirements of the Government Code and CCR.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Payroll information was incorrectly reported.
- Retroactive salary adjustments were incorrectly reported.
- Eligible part-time employees were not timely enrolled into CalPERS membership.
- Unused sick leave was incorrectly reported.
- Member reciprocal self-certification was not maintained.
- Observation: Agency records did not agree with my|CalPERS information.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, 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 July 1, 1948 to provide retirement benefits for local miscellaneous and safety (police) employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and 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 CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from July 1, 2011

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through June 30, 2014. The review objectives and methodology 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 effective January 5, 2014 did not meet all the requirements of the Government Code and CCR. Although payrates were approved in written labor policies and employment agreements, the pay schedule which identifies the position title and payrate for every employee position was not approved by the Agency's governing body.

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. 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; and
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the payrate definition and 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). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

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***Recommendation:***

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

The Agency should work with CalPERS Employer Account Management Division (EAMD) to identify and make adjustments, if necessary, to any impacted 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 did not report special compensation in accordance with the Government Code and CCR.

***Condition:***

- A. The Agency incorrectly reported special compensation as a lump sum amount instead of when earned. Specifically, the Agency reported a quarterly Uniform Allowance of \$225.00 for police employees in the pay period ended June 21, 2014. The Agency also reported an annual Uniform Allowance of \$262.08 for a Street Maintenance Worker in the pay period ended January 4, 2014. In addition, the Agency reported \$200.00 quarterly for police employees who qualified for Bilingual Pay in the pay period ended June 21, 2014. Government Code Section 20636(c)(3) requires the Agency to identify the pay period(s) in which special compensation was earned.
- B. The Agency incorrectly reported Education Incentive Pay in regular earnings for three police employees in various pay periods of Fiscal Year 2013-14. Because Educational Incentive Pay qualified as special compensation, the Agency should have reported it separately from base payrate and regular earnings.
- C. The Agency's written labor policy for public works employees did not include the condition for payments of uniforms. Specifically, the written labor policy contained a provision for providing uniforms; however, it did not identify uniform amounts. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the eligibility for, and amount of, the special compensation.

Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, 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.

***Recommendation:***

The Agency should ensure that special compensation is correctly reported in the pay period(s) earned.



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

The Agency should indicate the monetary value of employer-provided uniforms in a written labor policy or agreement.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted 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 payroll information.

***Condition:***

The Agency incorrectly reported payroll information for a City Council member. Specifically, the Agency used a bi-weekly payroll schedule type to report monthly earnings. The Agency should have used a monthly payroll schedule type to report monthly earnings. Reporting accurate payroll information is essential in calculating member benefits at retirement.

***Recommendation:***

The Agency should ensure that payroll schedule type is correctly reported to CalPERS.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20160, § 20630, § 20636

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# CITY OF GARDENA

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<b>4: The Agency incorrectly reported adjustments.</b>
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***Condition:***

- A. The Agency incorrectly reported a retroactive special compensation adjustment for a Police Officer as a lump sum amount. Specifically, the Police Officer was eligible for Peace Officer Standards and Training (POST) Certificate Pay of \$450.00 per month approved on December 30, 2013 and effective on June 17, 2013. The Agency reported the retroactive special compensation adjustment as a lump sum amount of \$2,803.82 in the pay period ended December 21, 2013. Retroactive special compensation adjustments used to report or correct special compensation for multiple prior periods should be reported to CalPERS in the pay periods earned.
  
- B. The Agency incorrectly reported retroactive salary adjustments as a lump sum amount. Specifically, the Agency approved a five percent merit increase on January 28, 2014 for the Director of Recreation effective July 7, 2013. The Agency reported the retroactive salary adjustment of \$3,916.17 as a lump sum amount in the pay period ended January 18, 2014. In addition, the Agency approved a five percent merit increase for an Administrative Aide on March 5, 2014 that was effective December 8, 2013. The Agency reported the retroactive salary adjustment as a lump sum amount of \$491.54 in the pay period ended February 15, 2014. Retroactive salary adjustments used to capture salary increases covering multiple periods should be reported to CalPERS in the pay periods earned.
  
- C. The Agency incorrectly reported a prior period adjustment for a Police Lieutenant. Specifically, the Agency reported an adjustment for Educational Incentive Pay of \$565.53 as regular earnings with an hourly payrate of \$61.86, in the pay period ended October 12, 2013. However, the Agency should have reported the Educational Incentive Pay as special compensation for the period ended September 28, 2013 with an hourly payrate of \$58.91 or \$10,211 per month.

***Recommendation:***

The Agency should ensure that retroactive adjustments are reported in the pay periods earned.

The Agency should ensure that prior period adjustments are correctly reported to CalPERS.

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The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Code: § 20120, § 20121, § 20160, § 20630, § 20636  
CCR: § 571

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**5:** The Agency did not enroll employees timely upon meeting CalPERS membership eligibility.

***Condition:***

- A. The Agency did not enroll four part-time employees upon meeting the 1,000-hour membership requirement during Fiscal Year 2012-13. Specifically, four part-time employees completed 1,000 hours of service and met eligibility in the month of June 2013. However, the Agency did not enroll three employees into membership until July 21, 2013 and one employee into membership until March 16, 2014. Government Code Section 20305 requires employees who complete 1,000 hours of service within a fiscal year to be enrolled into membership effective no 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.
- B. The Agency did not enroll a part-time Mechanic Intern who met the 1,000-hour membership requirement during Fiscal Year 2013-14. Specifically, the Mechanic Intern completed 1,000 hours of service and met eligibility in the pay period ended June 7, 2014. The Agency explained that it excluded the Mechanic Intern based on the Excluded Positions section in CalPERS Public Agency and Schools Reference Guide referencing Government Code Section 20300(c). However, Government Code Section 20300(c) applies specifically to students employed by schools. It states that persons employed as student assistants in the state colleges and persons employed as student aides in the special schools of the State Department of Education and in the public schools of the state are excluded from CalPERS membership. As a result, the Mechanic Intern should have been enrolled upon meeting the 1,000-hour membership requirement.

Government Code Section 20283 provides that any employer that fails to enroll an employee into membership when he or she becomes eligible, or within 90 days thereof, when the employer knows or can reasonably be expected to have known of that eligibility shall be required to pay all arrears cost for member contributions and administrative costs of five hundred dollar per member as reimbursement to this system's current year budget.

***Recommendation:***

The Agency should monitor the hours worked by part-time employees to ensure the employees are enrolled when membership eligibility requirements are met.

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The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Code § 20160, § 20283, § 20300, § 20305

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**6:** The Agency reported incorrect unused sick leave balances.

***Condition:***

The Agency did not certify the correct number of sick leave days for a retiree. The Agency certified a balance of .0787 years, equivalent to 196 days, of unused sick leave for a retiree. However, the correct balance was 142 days. Retiring members are eligible for additional service credit for unused sick leave accrued by the member during the normal course of employment. The total number of unused sick leave hours at retirement is converted to days to determine the additional service credit.

***Recommendation:***

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

The Agency should work with EAMD to assess the impact of this incorrect reporting and make any adjustments, if necessary, to any impacted retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20160, § 20965

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**7:** The Agency did not maintain the required member reciprocal self-certification.

***Condition:***

The Agency did not maintain the required member self-certification for employees hired after January 1, 2013. CCR Section 579.3 requires individuals to self-certify in writing as to whether he or she is also a member of another public retirement system and is eligible for reciprocity. Agencies are required to retain the retirement and benefit-related information provided by the newly-hired individuals.

***Recommendation:***

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains the information provided.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20160, § 7522.02, § 7522.04  
CCR: § 579.3



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**Observation:** The Agency's records do not agree with my|CalPERS information.

**Condition:**

OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans*. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active, inactive, or retired), class of employee, and eligible compensation.

OAS identified six individuals who had employment statuses that were different from the employment statuses in my|CalPERS. The Agency's records show that the employees have separated; however, the employees were not separated through my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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## CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives outlined in Appendix A. The procedures performed provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Beliz Chappuie

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BELIZ CHAPPUIE, CPA, MBA  
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Diana Thomas, CIA, CIDA, Senior Manager  
Edward Fama, Auditor  
Billy Vi, Auditor

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**CITY OF GARDENA**

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# **APPENDIX A**

## **OBJECTIVES**

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# CITY OF GARDENA

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## OBJECTIVES

The objectives of this review were limited to determine whether the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting and enrollment procedures prescribed in the Agency's retirement contract with CalPERS.

Effective January 1, 2013, new enrollments are checked against the PEPRA definition of "new member," regardless of whether the enrollment is for a first time CalPERS member or an existing member. All members that do not fit within the definition of a new member are referred to as "classic members."

## METHODOLOGY

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:
  - Provisions of the contract and contract amendments between the Agency and CalPERS
  - Correspondence files maintained at CalPERS
  - Agency Board minutes and Agency Board resolutions
  - Agency written labor policies and agreements
  - Agency salary, wage, and benefit agreements including applicable resolutions
  - Agency personnel records and employee time records
  - Agency payroll information including Contribution Detail Transaction History reports
  - Documents related to employee payrate, special compensation, and benefits
  - Various other relevant documents
- ✓ 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 meetings laws.

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- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ 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 entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide additional service credits for unused sick leave.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

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# APPENDIX B

## AGENCY RESPONSE

NOTE: The City provided an attachment to the response that was intentionally omitted from this appendix." Additionally, the names of individuals mentioned in the Agency's response were intentionally omitted from this appendix.



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WEB SITE: [www.ci.gardena.ca.us](http://www.ci.gardena.ca.us)

PAUL K. TANAKA, *Mayor*  
TERRENCE TERAUCHI, *Mayor Pro Tem*  
TASHA CERDA, *Councilmember*  
MARK E. HENDERSON, *Councilmember*  
DAN MEDINA, *Councilmember*

MINA SEMENZA, *City Clerk*  
J. INGRID TSUKIYAMA, *City Treasurer*  
MITCHELL G. LANSDELL, *City Manager*  
PETER L. WALLIN, *City Attorney*

March 17, 2016

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

Dear Ms. Chappuie:

Enclosed is the City's response to California Public Employees' Retirement System Public Agency Compliance Review which took place onsite at the City the week of July 6, 2015.

We appreciate your review of the enclosed responses and hope that we can rectify some of these findings prior to the final report.

Should you have any additional questions, please feel free to contact Kitha Torregano, Sr. Human Resources Analyst, at (310) 217-9509.

Very truly yours,

Original signed by Mitchell G. Lansdell

MITCHELL G. LANSDELL  
City Manager/Human Resources Officer

Enclosure

# CITY OF GARDENA RESPONSE



to

## PUBLIC AGENCY REVIEW



CALPERS ID: 4916209368  
JOB NUMBER: P15-001



## OFFICE OF AUDIT SERVICES REVIEW RESULTS

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

### *City of Gardena Response:*

The City of Gardena has always had Salary Schedules approved by our governing body, the City Council, by way of the approval of each individual Association Memorandum of Understanding (MOU) and/or Employee Resolution (Resolution). Each position salary schedule pertinent to the Association MOU and/or Employee Resolution is included in said respective MOU and Resolution

Since being informed by the CalPERS Audit Review Team during our onsite visit the week of July 6, 2015, the City of Gardena has since corrected this issue. All City Salary/Pay Schedules are now individually approved and adopted by our City Council in accordance with Government Code 20636 and CCR Section 570.5.

More specifically, Attachment 1, City of Gardena Resolution No. 6203, is included as supporting documentation to reference our reconciliation of this matter. All future Salary/Pay Schedules will be handled in the same manner going forward.

**2: The Agency did not report special compensation in accordance with the Government Code and CCR.**

***City of Gardena Response:***

- A. The City of Gardena payroll software currently does not allow for earned period reporting, simply designates the pay period in which the compensation was earned. The City will be making the recommendation to the Union Groups to pay out all Special Compensation on a bi-weekly basis, in order to automate reporting in addition to timely reporting.

The City agrees to report all Special Compensation in the period in which it was earned.

- B. This was a new Special Compensation which was set-up incorrectly. Reporting was corrected as soon as error was discovered.
- C. The City of Gardena will be adding uniform amount to the labor policy.

**3:** The Agency incorrectly reported payroll information.

***City of Gardena Response:***

- A. The City of Gardena has set-up a monthly schedule. See Attachment 2.
- B. The City is now correctly reflecting all compensation in the period earned. Additionally, this finding is the same finding as 2B. The City of Gardena would like to dispute this finding on the basis of double jeopardy. The City argues that we should not and cannot be issued a finding on the same issue twice.

4: The Agency incorrectly reported retroactive adjustments.

***City of Gardena Response:***

- A. Considering CalPERS suggestions during the onsite audit on reporting retroactive adjustments, the City of Gardena is now reporting all adjustments in the period earned.
- B. Considering CalPERS suggestions during the onsite audit on reporting retroactive adjustments, all retroactive salary adjustments are now being reported in the pay periods earned.

5: The Agency did not enroll employees timely upon meeting CalPERS membership eligibility.

***City of Gardena Response:***

- A. The City of Gardena requires all of our Departments to closely monitor the hours of our Part-Time employees who are not current CalPERS members. Unfortunately, human error does occur as in the case of the employees listed in Appendix B, Finding 5A of the Draft Report.

However, the City did want to bring to your attention that in regards to R. [REDACTED] CalPERS ID [REDACTED], Ms. R. [REDACTED] was enrolled in a timely manner. This finding is incorrect. Ms. R. [REDACTED] reached 1,000 hours on pay period ending 3/15/2014 and she was enrolled in CalPERS on 3/16/2014. Please see Attachment 3 as supporting documentation to dispute this finding.

Also, in Appendix B, Finding 5A, S. [REDACTED], CalPERS ID [REDACTED], was incorrectly reported in the Draft Report as reaching 1,000 hours on June 30, 2013. This information is incorrect. Mr. [REDACTED] did not reach 1,000 hours until January 31, 2014. Please see Attachment 3 as supporting documentation to dispute this finding.

- B. The City of Gardena disputes this finding. The Public Agency Employer Reference Guide (PARG) Agency does not specifically state that Student Assistants can only be excluded if they work for the State nor does it define district. In fact, the CalPERS Customer Service Representatives are confirming that Student Assistants are excluded from CalPERS Membership when you contact (888) 225-7377 for assistance in interpretation based on the information that is printed in the PARG. It was only after the Audit Review Team researched Government Code 20300(c) were we informed what district was defined as. Therefore, based on the vagueness of the PARG, the City wishes to dispute this finding.

Nevertheless, with addition and clarification of this provision through the Audit Review Team and this review process, the City will, in the future, enroll all Student Assistants, Interns and Aides upon meeting 1,000 hours of service.

6: The Agency reported incorrect unused sick leave balances.

***City of Gardena Response:***

The City of Gardena recognizes this mistake and contributes it to clerical error. This issue has not and will not occur again in the future.

7: The Agency did not maintain the required member reciprocal self-certification.

***City of Gardena Response:***

The City of Gardena does require, and has required, all of our employees to self-certify whether or not they are current or former members of CalPERS or any other public retirement system. This has been accomplished by the City's Employee Information form, specifically in the section titled, "PERS/PREVIOUS RETIREMENT ACCOUNTS" (Attachment 4). Said form garners the same information as the CalPERS Member Reciprocal Self-Certification Form. Therefore, we would like to dispute this finding based on the that fact.

Additionally, the City of Gardena was unaware that the CalPERS Member Reciprocal Self-Certification form was a mandatory requirement of members until the preliminary draft of the audit was received. Nevertheless, since the preliminary draft was received and we were notified of this potential finding, the City of Gardena has revised our new hire orientation process to include the CalPERS Member Reciprocal Self-Certification form and require its completion by all new hires currently and in the future.

**Observation:** The Agency's records do not agree with myCalPERS information.

***City of Gardena Response:***

The City of Gardena has corrected all of the Agency records listed under "Observation" in the myCalPERS system. All of said records are now listed as inactive with the City of Gardena