Office of Audit Services

Public Agency Review

City of Gonzales

CalPERS ID: 1217778828
Job Number: P13-084

November 2014

California Public Employees' Retirement System
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November 26, 2014

CalPERS ID: 1217778828
Job Number: P13-084

Rene L. Mendez, City Manager
City of Gonzales
P.O. Box 647
Gonzales, CA 93926

Dear Mr. Mendez:

Enclosed is our final report on the results of the public agency review completed for the City of Gonzales (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 Members, City of Gonzales
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

CITY OF GONZALES

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Gonzales (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.
- Base payrate and regular earnings was incorrectly reported.
- Unused sick leave was incorrectly reported.
- Eligible temporary/part-time employees were not enrolled into membership.
- Optional member was not accurately enrolled.

There were no issues related to employees in our sample subject to the Public Employees' Pension Reform Act of 2013 (PEPRA).

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 February 1, 1969 to provide retirement benefits for local miscellaneous, local police and local firefighter 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 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 January 1, 2011 through December 31, 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: Pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedule for the fiscal year 2011-12 was not properly approved by the Agency's governing body as required by the CCR. In addition, the pay schedule did not identify the position title for every employee position and did not indicate the time base. Specifically, the City Council member position was 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 make any necessary adjustments to active and retired member accounts pursuant 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 Treasurer Pay as special compensation for an employee in the pay period ending December 20, 2013. Treasurer Pay is not exclusively listed and defined in CCR Section 571. As a result, Treasurer Pay is not reportable as special compensation.

B. The Agency incorrectly reported Standby Pay as special compensation for an employee in the pay period ending December 20, 2013. Standby Pay is not exclusively listed and defined in CCR Section 571. As a result, Standby Pay is not reportable as special compensation.

C. The Agency did not report the monetary value of uniforms and uniform maintenance for employees required to wear uniforms. The Agency provided uniforms to employees in Public Works, Police, Fire, Engineer, and Animal Control positions. However, the Agency did not report the monetary value for the purchase and maintenance of uniforms as special compensation. The monetary value of uniforms is a statutory item of special compensation that is required to be reported to CalPERS for members enrolled prior to January 1, 2013. In addition, the Agency did not include the conditions for payment of the uniforms, including, but not limited to, eligibility for, and amount of, in a written labor policy or agreement as required by CCR Section 571.

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 discontinue reporting Treasurer Pay and Standby Pay as special compensation.

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 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 base payrate and regular earnings for an employee.

Condition:

The Agency incorrectly included Redevelopment Association Pay of $100.00 in a City Council member's base payrate and regular earnings. Redevelopment Association Pay does not qualify as special compensation and therefore is not reportable. As a result, the City Council member's base payrate and regular earnings are overstated.

Recommendation:

The Agency should discontinue reporting non-reportable compensation with base payrate and regular earnings.

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

Criteria:

Government Codes: § 20160, § 20630, § 20636
CCR: § 571

4: The Agency certified an incorrect sick leave balance.

Condition:

The Agency did not report the correct number of sick leave days for one retiree. Specifically, the retiring member cashed out a percentage of unused sick leave which left a balance of 22.51 days. However, the Agency incorrectly reported the retiree's sick leave balance as 43.41 days. As a result, the retiring member's unused sick leave balance was overstated by 20.9 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 CASD to make any necessary adjustments to the retired member's account pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20965

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

Condition:

A. The Agency did not enroll three employees hired through a temporary agency into membership when the 1,000-hour membership requirement was met. Specifically, the employees were compensated for over 1,000 hours in fiscal year 2012-13. Two employees met membership requirements in January 2013 and the other one met membership requirements in February 2013. As a result, the employees should have been enrolled into membership no later than 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 member into membership when eligibility requirements were met. Specifically, the part-time employee worked for the Agency and was subsequently hired by another employer that contracts with CalPERS for retirement benefits. Once the employee was hired and enrolled by another contracting employer, the Agency was required to immediately enroll the employee into membership through my|CalPERS.

Recommendation:

The Agency should ensure employees hired through a temporary agency that meet membership eligibility are enrolled.

The Agency should enroll employees with active membership.

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: § 20125, § 20160, § 20305

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6: The Agency did not accurately enroll a City Council Member.

Condition:

The Agency did not have an elected official complete the Optional Membership Form, AESD-59, prior to enrollment into membership. In addition to enrolling the elected official prior to the completion of the required form, the Agency also incorrectly enrolled the elected official as a regular member. The Agency should have required the elected official to complete the Optional Membership Form, submitted the form to CalPERS, and enrolled the individual in CalPERS as an optional member. An elective officer is excluded from membership unless the officer files with the Board an election in writing to become a member. An elective officer includes persons elected to a City Council.

Recommendation:

The Agency should work with CASD to ensure elected 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
Alan Feblowitz, CFE, Manager
Antonio Madrigal Jr., Auditor
Vincent Antolini, Auditor

APPENDIX A

OBJECTIVES

CITY OF GONZALES

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 January 1, 2011 through December 31, 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 all 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 listing 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

Wine Capital
CITY OF GONZALES
GONZALES, CALIFORNIA
Monterey County

City of Gonzales

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July 15, 2014

California Public Employees Retirement System
Office of Audit Services
PO Box 942701
Sacramento, CA 94229-2701

RE: City of Gonzales – 0759
CalPERS ID – 1217778828
Job Number – P13-084

Dear Ms Junker:

The City of Gonzales is in receipt of the DRAFT audit dated June 27, 2014. The City herby notifies you that we are in agreement with the audit findings, and find nothing other than what was discussed in our closing conference.

We appreciate the assistance of the audit team in helping the City of Gonzales stay incompliance with our CalPERS agreement.

Should you have any questions please feel free to contact me at (831) 674-5562.

Sincerely,

Mike Howard
Contract Finance Director