



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (916) 795-3240
(916) 795-0900 phone, (916) 795-4023 fax
www.calpers.ca.gov

August 1, 2011

Employer Code: 0355
Job Number: P10-026

City of Palm Springs
Geoffrey Kiehl, Director of Finance
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92262

Dear Mr. Kiehl:

Enclosed is our final report on the results of the public agency review completed for the City of Palm Springs. Your agency's written response indicates agreement with the issue noted in the report. The written response is included as an appendix to the report. As part of our resolution process, we have referred the issue identified in the report to the appropriate division at CalPERS. Please work with this division to address the recommendation specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

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

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Darryl Watson, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Don Martinez, Interim Assistant Chief, HAS, CalPERS
Honorable Board Members, City of Palm Springs

Office of Audit Services



Public Agency Review

City of Palm Springs

Employer Code: 0355
Job Number: P10-026

August 2011

CITY OF PALM SPRINGS

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
City Background.....	1
Scope.....	1
Office of Audit Services Review Results	2
Finding 1: Value of uniforms not reported	2
Conclusion	3
CalPERS Background.....	Appendix A
Objectives	Appendix B
Criteria	Appendix C
Status of Prior Review	Appendix D
City's Response	Appendix E

CITY OF PALM SPRINGS

RESULTS IN BRIEF

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

- The value of employer provided uniforms was not reported.

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

CITY BACKGROUND

The City of Palm Springs was incorporated in 1938 and is governed by a Mayor, under the direction of the City Council. The City's major operations include public safety, highways and streets, sanitation, culture and recreation, aviation, planning and zoning, community development, and administrative services. Memoranda of Understanding (MOU) and employment agreements outline all City employees' salaries and benefits and state the terms of employment agreed upon between the City and its employees.

The City contracted with CalPERS effective January 1, 1957, to provide retirement benefits for local miscellaneous, police, and fire safety employees. The City's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The City contracted with CalPERS effective January 1, 1994, to provide health benefits to all eligible employees.

SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the City's payroll reporting and member enrollment processes as these processes relate to the City's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from July 1, 2007 through June 30, 2010. The on-site fieldwork for this review was conducted on November 29, 2010 through December 3, 2010. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed under Appendix B.

CITY OF PALM SPRINGS

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The City did not report the monetary value of uniforms provided for employees required to wear the uniforms.

Recommendations:

The City should ensure that the value of employer provided uniforms is reported for all employees required to wear a uniform as special compensation.

The City should work with CalPERS Customer Account Services Division (CASD) to assess the impact of and to correct this non-reporting issue.

Conditions:

We reviewed a sample of employees from various job classifications to ensure the City reported uniforms and uniform allowances as described in the City MOU's. The City reported the uniform allowances for sampled employees who were required to wear uniforms during pay period 12/09-4. We determined the City appropriately reported uniform allowances for the sampled employees in the police, fire safety, and animal control departments as outlined in the MOU's; however, the City did not report the value of uniforms provided for the employees in the maintenance department. These uniforms were rented and the cost also included the cleaning of the uniforms. The cost of the uniform rentals and cleaning should be reported to CalPERS as special compensation for all employees required to wear uniforms.

Criteria:

Government Code § 20636, § 20636 (c)(6)
California Code of Regulations § 571 (a)(5)

CITY OF PALM SPRINGS

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the City's payroll and health records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code except as noted.

The finding and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared.

Respectfully submitted,

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

Date: August 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Adeeb Alzanoon
Nancy Sayers

CITY OF PALM SPRINGS

APPENDIX A

BACKGROUND

CITY OF PALM SPRINGS

BACKGROUND

California Public Employees' Retirement System

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

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

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

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

APPENDIX B

OBJECTIVES

CITY OF PALM SPRINGS

OBJECTIVES

The objectives of this review were limited to the determination of:

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

This review covers the period of period July 1, 2007 through June 30, 2010. OAS completed a prior review covering the period of time from July 1, 2000 to June 30, 2002.

SUMMARY

Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures and performed the following procedures. Related sample sizes, sample periods and findings are listed.

- ✓ Reviewed:
 - Contracts and contract amendments between the City and CalPERS
 - Correspondence files maintained at CalPERS
 - City Council minutes and City Council resolutions
 - City written labor policies and agreements
 - City salary, wage and benefit agreements including applicable resolutions
 - City personnel records and employee hours worked records
 - City payroll information including Summary Reports and PERS listings
 - Other documents used to specify payrate, special compensation and benefits for all employees
 - Health Benefits Program enrollment records and supporting documentation
 - City ordinances as necessary
 - Various other documents as necessary
- ✓ Reviewed City payroll records and compared the records to data reported to CalPERS to determine whether the City correctly reported employees' compensation.

CITY OF PALM SPRINGS

Sample Size and Period: Reviewed 20 employees covering two sampled service periods - the second service period in December 2009 (12/09-4), and the first service period in June 2010 (6/10-3).

Finding 1: Compensation earnable not reported

- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to City 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 City's governing body in accordance with requirements of applicable public meeting laws.

Sample Size and Period: Reviewed 20 sampled employees in the first service period in June 2010 (6/10-3).

No Finding.

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

Sample Size and Period: Reviewed 20 sampled employees in the first service period in June 2010 (6/10-3).

No Finding.

- ✓ Reviewed the City's enrollment practices to determine whether individuals met CalPERS membership requirements.

Sample Size and Period: Three temporary/part-time employees in fiscal years 2008/2009, and an additional three employees in fiscal year 2009/2010.

No Finding.

Sample Size and Period: Four retired annuitants in fiscal years 2008/2009 and 2009/2010.

No Finding.

Sample Size and Period: Four independent contractors in calendar years 2008 and 2009.

CITY OF PALM SPRINGS

No Finding.

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

Sample Size and Period: Two retiring members covering the review period.

No Finding.

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

Sample Size and Period: Six employees and their dependents in the review period.

No Finding.

CITY OF PALM SPRINGS

APPENDIX C

CRITERIA

CITY OF PALM SPRINGS

CRITERIA

Finding 1: *Earnable compensation not reported*

Government Code § 20636, subdivision (a), states, in part,
Compensation earnable by a member means the payrate and special
compensation of the member.

Government Code § 20636, subdivision (c)(6), states:
A uniform allowance, the monetary value of employer-provided uniforms...
shall be included as special compensation.

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

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

CITY OF PALM SPRINGS

APPENDIX D

STATUS OF PRIOR REVIEW

**FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF PALM SPRINGS
PRIOR REVIEW P02-005, DATED JANUARY 2003**

<i>Prior Review Finding</i>	<i>Prior Review Recommendation</i>	<i>Status of Prior Recommendation</i>
1. Retired Annuitant not reinstated into membership.	The City should implement procedures to monitor hours worked and reinstate individuals who exceed the 960 hour threshold.	Implemented. No similar observations were noted.
2. Unused sick leave balances were not properly reported to CalPERS.	The City should ensure that all unused sick leave for fire safety employees is properly reported to CalPERS for retirement benefit calculation purposes.	Implemented. No similar observations were noted.
3. Employer paid deferred compensation incorrectly reported.	The City should discontinue reporting employer paid deferred compensation to CalPERS.	Implemented. No similar observations were noted.
4. Value of the uniforms provided to the maintenance department employees was not reported as compensation.	The City should ensure that the value of uniforms provided and the cleaning should be reported as compensation for all employees that are required to wear uniforms.	The City has the same finding in the current review.
5. Temporary/part-time employee not enrolled timely.	The City should monitor hours worked and enroll eligible employees when 1,000 hour requirement is met.	Implemented. No similar observations were noted.
6. Payroll reporting error.	The City should investigate and correct all payroll reporting errors.	Implemented. No similar observations were noted.

Conclusion: The City implemented all of the recommendations of our prior review dated January 2003, with the exception of finding 4 noted. Specifically, the value of uniforms provided and the cleaning of the uniforms were not reported as compensation for the employees who were required to wear uniforms.

CITY OF PALM SPRINGS

APPENDIX E

CITY'S WRITTEN RESPONSE



City of Palm Springs

Department of Finance and Treasury

3200 E. Tahquitz Canyon Way • Palm Springs, California 92262
Tel: (760) 323-8229 • Fax: (760) 322-8320 • Web: www.palmspringsca.gov

July 13, 2011

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

Re: PERS Audit Draft Report
Employer Code: 0355
Job Number: P10-026

Dear Ms. Junker:

We are in receipt of your letter and draft audit report dated June 27, 2011. We concur with your finding relating to the non-reporting of the monetary value for the purchase, rental, and maintenance of uniforms for maintenance workers. We will be working to remedy the finding at our earliest convenience.

If you have any further questions or comments, feel free to contact me at geoffrey.kiehl@palmspringsca.gov or at (760) 323-8221.

Sincerely,

Geoffrey S. Kiehl
Director of Finance and Treasurer
City of Palm Springs