

Office of Audit Services



CalPERS

Public Agency Review

City of Placentia

CalPERS ID: 2117892921
Job Number: SP15-010

July 2016



California Public Employees' Retirement System
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July 28, 2016

CalPERS ID: 2117892921
Job Number: SP15-010

Stephen Pischel, Director of Administrative Services
City of Placentia
401 E Chapman Ave
Placentia, CA 92870

Dear Mr. Pischel:

Enclosed is our final report on the results of the public agency review completed for the City of Placentia (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 2A. We appreciate the additional information that you provided in your response. After consideration of this information, our recommendations remain as stated in the report. We have also included additional language to finding 2E acknowledging that safety boots are excluded as reportable compensation.

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 Members, City of Placentia
Larry Schroeder, Interim Chief Financial Officer
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Chief, EAMD, CalPERS
Carene Carolan, Chief, MAMD, CalPERS

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RESULTS IN BRIEF

The objective of our review was to determine whether the City of Placentia (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 Government Code and CCR requirements.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Payrate and earnings were incorrectly reported.
- Compensation was incorrectly reported.
- Member contributions were incorrectly paid.
- 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 February 1, 1963 to provide retirement benefits for local miscellaneous and safety (police and fire) 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 compliance with the PERL and its contract related to compensation and payroll reporting. Additionally, 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 review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through June 30, 2014. OAS did not review the Agency's compliance with

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membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's did not have a pay schedule that met all of the Government Code and CCR requirements.

Condition:

The Agency did not have a pay schedule that indicated the time base for full-time miscellaneous management and mid-management employee payrates. Additionally, the Agency's salary schedule referenced another document in lieu of disclosing payrate for the same group of employees. Specifically, the salary schedule identified a base rate or control point for management and mid-management positions and referenced City Council Resolutions 83-R-125, 86-R-129 and 88-R-112. The resolutions specify the actual salary can be twenty percent below or ten percent above the stated base rate or control point.

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

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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.

Recommendation:

The Agency should ensure it has a pay schedule that 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 Bonus Pay for a Police Services Supervisor. Specifically, the Agency reported Bonus Pay of \$111.18 as special compensation during the pay period ended July 20, 2013. However, the pay did not meet the definition of Bonus Pay listed in CCR Section 571. The CCR defines Bonus Pay as special compensation paid for superior performance and states that a program or system must be in place to plan and identify performance goals and objectives. Although the Bonus Pay was paid to the employee for exceptional performance, the Agency did not have a plan that identified performance goals and objectives. Instead, the Agency had sole discretion to select employees for bonuses.
- B. The Agency incorrectly reported special compensation combined with regular earnings. Specifically, the Agency reported a retroactive salary adjustment that included Senior Officer Pay and Detective Pay for a Police Officer for the period March 27 through October 26, 2013. The Senior Officer Pay and Detective Pay were determined to be reportable as special compensation; however, the pays were incorrectly reported as regular earnings. Special compensation must be reported separately from regular earnings.
- C. The Agency did not report the value of Employer Paid Member Contributions (EPMC) for police safety employees on all compensation earnable. Specifically, the Agency did not calculate and report the value of EPMC on the value of uniforms and Longevity Pay. CCR 571 states that the value of EPMC is an item of special compensation that is calculated and reported on all items of compensation earnable, excluding the value of EPMC.
- D. The Agency did not report Uniform Allowance as special compensation. Specifically, the Agency provided a Uniform Allowance of \$250.00 per year for uniform cleaning for classic employees governed by the Placentia City Employees' Association (PCEA) labor agreement. However, the Uniform Allowance was not reported to CalPERS. Government Code Section 20636 and CCR 571 requires that the monetary value for the purchase, rental, and/or maintenance of required clothing, a statutory item, be reported as special compensation for classic employees.

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E. The Agency's written labor policies for the police employees and miscellaneous employees containing the provision for uniforms did not meet all the requirements of CCR 571(b)(1)(B). Specifically, the policies did not indicate the provisions for uniforms. CCR Section 571 requires that the written labor policy or agreement contain the conditions for payment, including, but not limited to, eligibility for, and amount of, the special compensation. Additionally, safety related items, such as safety boots, are not reportable as Uniform Allowance.

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 it reports special compensation in accordance with the Government Code and CCR.

The Agency should ensure it reports special compensation separately from earnings.

The Agency should ensure that the value of EPMC is reported to CalPERS in accordance with its written labor policy and the authorized resolution.

The Agency should ensure that the Uniform Allowance is reported as special compensation.

The Agency should ensure conditions for payment of Uniform Allowance are included 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 base payrate and regular earnings.

Condition:

The Agency incorrectly reported the payrate and earnings for a Police Officer. Specifically, the Agency reported earnings of \$2,359.34 and an hourly payrate of \$29.49 in the pay period ended July 20, 2013. However, during this pay period the employee's actual earnings were \$2,486.74 and the payrate was \$31.08.

Under Government Code Section 20636(b)(1), payrate is defined as the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules. Payrate and earnings are important factors in computing a member's retirement allowance because service credit and final compensation are directly related to these factors. Failure to correctly report payrate can impact the retirement benefits that will be received upon retirement.

Recommendation:

The Agency should ensure the correct payrates and earnings are reported.

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: § 20120, § 20121, § 20160, § 20630, § 20636
CCR: § 570.5

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4: The Agency incorrectly reported compensation.

Condition:

- A. The Agency incorrectly reported \$484.87 of overtime for a Police Sergeant during the pay period ended March 29, 2014. Pursuant to Government Code 20635, the compensation was not reportable to CalPERS.
- B. The Agency incorrectly reported compensation paid to a Police Officer for overtime and cash outs of unused leave time for the period March 27, 2013 through October 26, 2014. Specifically, the Agency reported a retroactive salary adjustment that included payments for overtime and the buyback of unused leave time. Overtime pay is not reportable pursuant to Government Code Section 20635. Leave buyback payments are not reportable pursuant to the Government Code and CCR.

Recommendation:

The Agency should not report compensation for overtime and leave buybacks.

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 Code: § 20160, § 20630, § 20635, § 20636
CCR: § 571

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5: The Agency did not pay the full nine percent member contributions for police management employees.

Condition:

The Agency did not pay the full nine percent normal member contributions as agreed to in the Agency's written labor policy and resolution. Instead, the police management safety employees, who were enrolled as classic CalPERS members, incorrectly paid a portion of the normal member contributions in pay periods ended March 29, 2014 and May 24, 2014.

Recommendation:

The Agency should ensure contributions are paid in accordance with its written labor policy and pursuant to Government Code and CCR.

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, § 20691
CCR: § 569

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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 one employee whose CalPERS identification number did not match what was shown in my|CalPERS. OAS also identified two individuals who had employment statuses that were different from the employment statuses in my|CalPERS. The Agency's records show that the employees had retired; 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

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Alan Feblowitz, CFE, Senior Manager
Alicia Watts, Manager
Dennis Szeto, Lead Auditor
Vincent Antolini, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were 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 procedures prescribed in the Agency's retirement contract with CalPERS.

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.
- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE

Note: The Agency provided an attachment to the response that was intentionally omitted from this appendix.

The People are the City



Mayor
JEREMY B. YAMAGUCHI

Mayor Pro Tem
CRAIG S. GREEN

Councilmembers:
SCOTT W. NELSON
CONSTANCE M. UNDERHILL
CHAD P. WANKE

City Clerk:
PATRICK J. MELIA

City Treasurer
KEVIN A. LARSON

City Administrator
DAMIEN R. ARRULA

401 East Chapman Avenue – Placentia, California 92870

June 24, 2016

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

Dear Beliz Chappuie:

The City of Placentia has reviewed the draft report on a compliance review that was conducted by Vincent Antolini from your office. We have attached our response to the findings of this review.

I would like to thank you and your staff for the assistance given during the audit as well as the time extension in responding to your review.

Should you or any of your staff have any questions or comments, please feel free to contact me at (714) 993-8142, or by e-mail at spischel@placentia.org.

Sincerely,

Original signed by Stephen D. Pischel


Stephen D. Pischel,
Administrative Services Director

Attachment: Response to compliance review.

Cc: Vincent Antolini, CalPERS
Larry Schroeder, Interim Chief Financial Officer

1. The agency did not have a pay schedule that met all of the Government Code and CCR requirements.

- The City did have a control point pay schedule in place. The schedule indicated that Management and Mid-Management employees are eligible for a range of 20% below to 10% above their control point. The City has amended this document so it now lists the amount of 20% below and 10% above as well as the control point. This new schedule was presented and formally approved by City Council at their June 21, 2016 meeting.
- Control Point is based on monthly pay, although not previously identified.
- The new Control Point schedule no longer references another document in lieu of showing the pay rate. See Attachment A.

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

(A) Exceptional Performance Merit Pay requirements are defined in the MOU for Placentia City Employees Association. To be eligible, employees had to maintain an outstanding evaluation and needed to be recommended each month by their immediate supervisor and department head. It should be noted that as of February 1, 2014 the City no longer offers this pay.

(B) Retroactive pay was incorrectly reported as "regular pay" when it should have been reported as specialty pay. Error has been corrected in MyCalPers.

(C) Error in reporting, item has been corrected.

(D) Error in reporting, item has been corrected.

(E) Cleaning and Boot Allowance- previous MOU defined who was eligible but did not list the conditions or details. The updated MOU now contains that information See Attachments B.

We have not been reporting these reimbursements as special compensation; staff will correct this item when the July 2016 payments are made and will report the past two calendar year payments for employees who have received this special compensation.

3. *The Agency incorrectly reported base pay rate and regular earnings.*

- Error in reporting item has been corrected. Staff has verified that the error did not occur in subsequent pay periods.

4. *The Agency incorrectly reported compensation.*

(A) Agency incorrectly reported overtime for a Police Sergeant, the compensation was not reportable to CalPERS. Error in reporting item has been corrected. Staff has verified that the error did not occur in subsequent pay periods.

(B) Agency incorrectly reported a retroactive salary adjustment from the period of March 27, 2013 through October 26, 2014. Compensation reported to CalPERS included overtime and buy back of unused leave time. Error in reporting item has been corrected.

5. *The Agency did not pay the full nine (9) percent member contributions for police management employees.*

- An MOU change had taken place and the correct withholding amount for employee contribution had not been changed in our reporting to MYCALPERS. The issue has since been corrected and all Police Management employees are paying their full nine (9) percent.

Observation: The agency's records do not agree with myCALPERS information.

An observation was noted of an employee who had in incorrect CalPERS ID number listed in the City's payroll system. This item has been corrected. A second observation noted two retired employees were still listed as active in the MyCALPERS system. Both of these have been corrected and now are listed as retired.