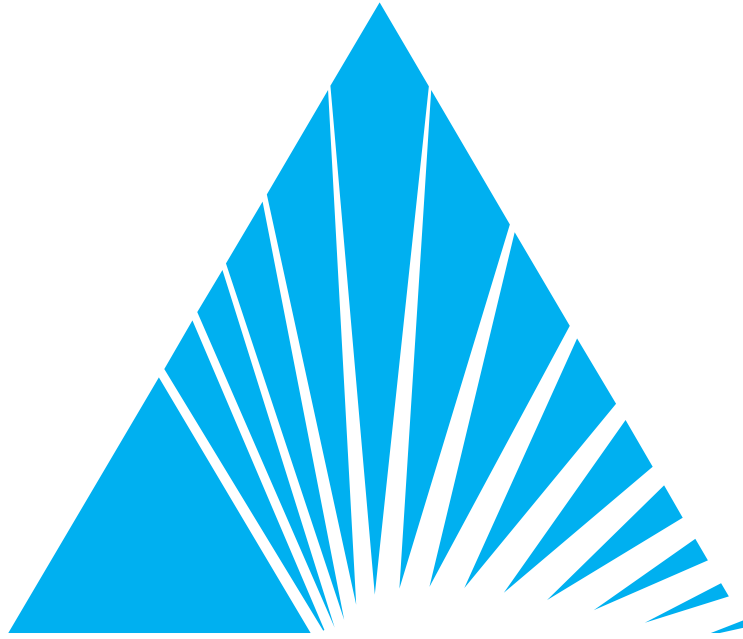


Office of Audit Services



CalPERS

Public Agency Review

City of Port Hueneme

CalPERS ID: 3263497639
Job Number: SP15-022

May 2016



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

May 26, 2016

CalPERS ID: 3263497639
Job Number: SP15-022

Carmen Nichols, Deputy City Manager
City of Port Hueneme
250 N. Ventura Road
Port Hueneme, CA 93041

Dear Ms. Nichols:

Enclosed is our final report on the results of the public agency review completed for the City of Port Hueneme (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 2D. We appreciate the additional information that you provided in your response. After consideration of this information, Finding 2D was removed from the report. We also clarified Findings 1 and 3.

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: City Council, City of Port Hueneme
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 Port Hueneme (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 and observation 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 did not correspond with regular earnings.
- The Agency did not maintain the required member reciprocal self-certification.
- 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 October 1, 1961 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

CITY OF PORT HUENEME

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 pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedule did not meet all of the Government Code and CCR requirements. Specifically, the Agency did not have a pay schedule that was duly approved and adopted by the Agency's governing body in accordance with the requirements of applicable meeting laws. In addition, the Agency's pay schedule did not include the City Manager's position and did not indicate the time base for all positions listed, except for the pay schedule for Police Sergeant, which reflects the correct hourly payrate. Furthermore, the monthly and annual rates reflect the payrates for 40 hours employees rather than the regularly schedule 42 hours as noted in Finding 3.

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

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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.

Recommendation:

The Agency should ensure each pay listed is correct and 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 Longevity Pay as special compensation for a police sergeant in the pay period ended December 8, 2013. Longevity Pay as defined in the Agency's written labor agreement for police does not meet the definition listed in CCR Section 571(a). Therefore, Longevity Pay is not reportable as special compensation.
- B. The Agency did not report the monetary value for the purchase of uniforms for police employees. Specifically, the Agency provided safety employees with uniforms. However, the Agency did not report the monetary value for the purchase of the uniform as special compensation. Government Code Section 20636 and CCR Section 571(a)(5) requires the monetary value for the purchase, rental, and/or maintenance of required clothing to be reported as special compensation for classic employees.
- C. The Agency's written labor policy for the safety and public works did not include the conditions for payment of uniforms. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, 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 not report Longevity Pay as special compensation since it does not meet Government Code and CCR requirements.

The Agency should report the monetary value for the purchase, rental and/or maintenance of required clothing as special compensation for classic safety employees.

CITY OF PORT HUENEME

The Agency should ensure the conditions for payment of special compensation items are contained 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, § 20636, § 20691
CCR: § 569, § 571

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3. The Agency reported a payrate that did not correspond with regular earnings.

Condition:

The Agency reported a monthly payrate for a police sergeant that that did not correspond with the employee's reported earnings due to an incorrect conversion of work hours. Specifically, the Agency reported a monthly payrate of \$10,102 which matched the monthly payrate listed in the Agency's pay schedule. However, the employee worked a normal schedule of 42 hours a week and was paid \$58.28 per hour, or \$10,606.96 per month. The Agency should report the employee's payrate commensurate with the employee's earnings for normal hours worked.

Government Code Section 20630 defines regular earnings as compensation paid to a member for services performed during normal work hours and Government Code Section 20636 defines payrate 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. Payrate and earnings are important factors in computing a member's retirement allowance. Failure to correctly report payrates and earnings can impact the retirement benefits that will be received upon retirement.

Recommendation:

The Agency should ensure that payrates and regular earnings are correctly 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: § 20160, § 20630, § 20636
CCR: § 570.5

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

Condition:

The Agency did not maintain the required member reciprocal self-certification for an employee 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 individual.

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 Code: § 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 one employee who had hire date that was different from the hire date in my|CalPERS. Additionally, there were six employees who were no longer with the Agency but were active in 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
Chris Wall, Senior Manager
Patrick McCasland, CPA, Lead Auditor
Benjamin Banahene, Auditor
Vincent Antolini, Auditor

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APPENDIX A

OBJECTIVES

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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 records to determine whether member census data agreed with my|CalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



City of Port Hueneme

CITY ADMINISTRATION

Via Fax: (916) 7957836 and USPS mail

April 15, 2016

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

Re: Public Agency Review
CalPERS ID: 3263497639
Job Number: SP15-022

Dear Staff:

The City of Port Hueneme has reviewed the Public Agency Review report and acknowledges steps will be made to be in full compliance with the Government Code and CCR requirements as outlined in the report.

As to individual findings:

Finding 1: Agree. The pay schedule is adopted by City Council when there is a revision to the schedule to classifications or salary ranges. The Salary Schedule from one fiscal year to the other are rolled over provided there are no other changes that require the approval by the City Council. The salary schedule was not included as an exhibit to the Annual Budget. It is agreed that the classifications of "City Manager" and "Councilmember" are not on the salary schedule as the salary for the City Manager is based on an agreement between the employee and the City, and the salary of a "Councilmember" is adopted by Ordinance. Corrections will be made.

Finding 2: Agree. Corrections will be made and language will be clarified in existing labor agreements as soon as practical for subsections A-C.

With regard to subsection D, the City disagrees with your finding. The City correctly reported EPMC in the amount of eight percent for said employees. Resolution No. 4106 was approved by City Council June 7, 2006 and filed with CalPERS by the existing method (mail). The City does not agree that the absence of the resolution in the electronic system defines the EPMC was reported inaccurately. In fact, this issue was mitigated during the review

process and the resolution was properly imported into the electronic system during the review.

Finding 3: Agree. It is agreed that the Pay rate does not equal the reported hours worked, in fact earnings exceed Pay rate. The Pay rate is reported accurately based on the approved salary schedule and agreement between the City and the labor group. It is agreed that a correction is necessary to be within compliance, but uncertain in what area. City staff requires further direction from CalPERS on this matter.

Finding 4: Agree. A reciprocal self-certification form will be requested of all employees hired on or after January 1, 2013.

Finding 5: Agree. City staff will audit personnel data and make corrections as necessary.

Thank you for considering the City's response as part of the review process. We look forward to receiving your final determination and working with your staff to clarify certain requirements and fulfill full compliance.

Sincerely,



Original signed by Carmen Nichols

Carmen Nichols
Deputy City Manager