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September 14, 2012

Employer Code: 1892
CalPERS ID: 3176487975
Job Number: P11-010

City of Rancho Cordova
Stacey Peterson, Human Resources Manager
2729 Prospect Park Drive
Rancho Cordova, CA 95670

Dear Ms. Peterson:

Enclosed is our final report on the results of the public agency review completed for the City of Rancho Cordova. Your City's written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 2, Finding 3 and Finding 5. Based on the information contained in your City's response pertaining to these Findings, our recommendation remains as stated in the report for Findings 2 and 3, and we expanded the language for Finding 5 to further clarify the issue. 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 City 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: Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Ted Gaebler, City Manager, City of Rancho Cordova
Honorable City Council Members, City of Rancho Cordova

Office of Audit Services



Public Agency Review

City of Rancho Cordova

Employer Code: 1892
Job Number: P11-010

September 2012

CITY OF RANCHO CORDOVA

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
City Background.....	1
Scope.....	2
Office of Audit Services Review Results	3
Finding 1: Compensation Earnable	3
Finding 2: Non-Reportable Compensation	4
Finding 3: Publicly Available Pay Schedule.....	6
Finding 4: Payroll Reporting Elements Incorrectly Reported	7
Finding 5: Temporary/Part-Time Employees.....	8
Finding 6: Health Benefits Documentation	9
Conclusion	10
CalPERS Background.....	Appendix A
Objectives	Appendix B
City's Written Response	Appendix C

CITY OF RANCHO CORDOVA

RESULTS IN BRIEF

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

- Monetary value for the purchase and maintenance of uniforms was not reported.
- Non-reportable compensation in the form of license pay was reported.
- Value of Employer-Paid Member Contributions (EPMC) was incorrectly reported.
- Publicly available pay schedule was not provided.
- Payroll reporting elements were incorrectly reported.
- Temporary/part-time employees were not properly enrolled in CalPERS membership.
- Health benefit documentation was not provided.

CITY BACKGROUND

The City of Rancho Cordova was incorporated May 2002, effective July 1, 2003, under the laws and regulations of the State of California. The City operates under a Council-City Manager form of government and provides the following services: public safety (Police), roads and streets, public improvements, planning and zoning, and general administrative services. The City's Human Resources Manual and employment agreement 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 May 16, 2004, to provide retirement benefits for all miscellaneous employees. The City's current contract amendment identifies the length of the final compensation period as three years for all coverage groups. The City contracted with CalPERS effective September 1, 2004, to provide health benefits to all eligible employees.

All contracting public agencies, including the City, are responsible for the following:

- Determining CalPERS membership eligibility for its employees.
- Enrolling employees into CalPERS upon meeting membership eligibility criteria.
- Enrolling employees in the appropriate membership category.
- Establishing the payrates for its employees.
- Approving and adopting all compensation through its governing body in accordance with requirements of applicable public meeting laws.
- Publishing all employees' payrates in a publicly available pay schedule.

CITY OF RANCHO CORDOVA

- Identifying and reporting compensation during the period it was earned.
- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.
- Notifying CalPERS when employees meet Internal Revenue Code annual compensation limits.
- Ensuring the employment of a retired annuitant is lawful and reinstating retired annuitants that work more than 960 hours in a fiscal year.
- Ensuring only eligible members and their dependents are enrolled for health coverage.
- Keeping accurate and up to date records of all health enrollment related information such as enrollment forms, parent-child relationship affidavits, divorce decrees, and other documentation.

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, 2008, through June 30, 2011. The on-site fieldwork for this review was conducted on October 31, 2011, through November 3, 2011. The review objectives and a summary of the procedures performed are listed in Appendix B.

CITY OF RANCHO CORDOVA

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The City did not report the monetary value for the purchase and maintenance of uniforms to CalPERS as earnable compensation.

Recommendations:

The City should ensure that the monetary value for the purchase and maintenance of uniforms is reported to CalPERS.

OAS recommends CASD work with the City to determine the impact of this non-reporting and make the necessary adjustments to member's accounts pursuant to Government Code Section 20160.

OAS recommends CASD work with the City to ensure the required language is contained in the City's labor policy or agreement for all statutory items reported pursuant to Government Code Section 20636 and California Code of Regulations Section 571.

Condition:

The monetary value for the purchase, rental and/or maintenance of required clothing is a statutory item reportable to CalPERS as earnable compensation. The City provides uniforms and the maintenance of uniforms to various employee groups, such as, code enforcement officers and animal services officers whom were required to wear uniforms. OAS obtained copies of invoices and identified that the City did not report the value and maintenance of uniforms as earned compensation for the employees. Also, the City did not have the required language in the City's Human Resources Manual defining this statutory compensation item.

Criteria:

Government Code: § 20049, § 20160, § 20636(a), § 20636(c)(1), (c)(2) and (c)(6), § 20636(d)

California Code of Regulations: § 571(a)(5), § 571(b)

CITY OF RANCHO CORDOVA

Finding 2: The City reported non-reportable compensation in the form of license pay, and over-reported the value of EPMC.

Recommendations:

The City should discontinue reporting license pay to CalPERS until a written labor policy or agreement defining the license pay provision is approved and in place.

The City should report the correct value of EPMC for all employees.

OAS recommends CASD deny all non-reportable items of compensation. CASD should make the appropriate adjustments to the members' accounts and other areas needing adjustment pursuant to Government Code Section 20160.

Conditions:

License Pay

License pay is reportable to CalPERS as additional compensation when it meets the definition of special compensation, including that it be contained in a written labor policy or agreement. OAS identified two sampled employees who received license pay in both service periods tested. One employee received \$612.73 in the 12/10-3 service period, and \$551.45 in the 5/11-4 service period representing a five percent payment for possessing a traffic engineering license and another five percent payment for possessing a land surveyor license. The other employee received \$183.29 in the 12/10-3 service period, and \$164.96 in the 5/11-4 service period representing a five percent payment for possessing a traffic engineering license. The City reported the additional compensation to CalPERS for each of the employees. However, license pay was not included as a provision in the City's Human Resources Manual or any other labor policy or agreement approved by the City's governing body. OAS determined that the license pay was not reportable to CalPERS because it did not meet the criteria for reportable compensation.

Value of EPMC

An employer has the option of reporting the value of EPMC to CalPERS as special compensation for a group or class of employees. The City filed a resolution, effective December 15, 2008, to pay and report the value of EPMC at five and one-half percent for all local miscellaneous members. OAS identified that the City reported the value of EPMC at eight percent for the City Manager, which equated to an over-reporting of \$821.06 in the 12/10-3 service period and \$205.46 in the 5/11-4 service period.

CITY OF RANCHO CORDOVA

Criteria:

Government Code: § 20049, § 20160, § 20636(c)(2) and (c)(4), § 20636(d), § 20691

California Code of Regulations: § 571(a)(1), § 571(b)

CITY OF RANCHO CORDOVA

Finding 3: The City did not have publicly available pay schedules.

Recommendations:

The City should list all employee payrates on a pay schedule and disclose the information pursuant to publicly available pay schedules as defined in California Code of Regulations Section 570.5.

OAS recommends CASD work with the City to determine the impact of this nondisclosure and make the necessary adjustments to members' accounts, if any, pursuant to Government Code Section 20160.

OAS recommends CASD work with the City to ensure that the City develops publicly available pay schedules that meet the criteria of California Code of Regulations Section 570.5.

Condition:

Public agencies are required to maintain public pay schedules that meet criteria pursuant to law and regulations, such as, being duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws, and available for public scrutiny. The City's pay schedules were approved by the City Manager and were not approved by the City Council. In addition, the July 2010 pay schedule did not identify the position title for every employee position, such as, City Council Member and Public Relations and Communications Manager. Therefore, the City provided pay schedules that did not meet the criteria for a public pay schedule as required by law and regulation, including not approved by their governing body and not available for public scrutiny.

Criteria:

Government Code: § 20160, § 20636(b)(1)

California Code of Regulations: § 570.5(a)

CITY OF RANCHO CORDOVA

Finding 4: The City incorrectly reported payroll reporting elements including payrate and earnings to CalPERS.

Recommendations:

The City should report the correct payroll reporting elements when reporting payrate and earnings amounts to CalPERS in accordance with the CalPERS Procedures Manual.

OAS recommends CASD identify the impact of this erroneous reporting and work with the City to make the necessary adjustments to the members' accounts and other areas needing adjustment pursuant to Government Code Section 20160.

Condition:

Payrate and earnings reported to CalPERS are important factors in computing a member's retirement allowance. Service credit and final compensation are directly related to the payrate and earnings reported for a member. Payrate is the amount of compensation a member is paid for a unit of time. Specifically, a monthly payrate for a full-time employee is that amount of compensation to which a full-time employee is entitled. Reportable earnings is compensation earnable that a member received pursuant to publicly available pay schedules for services rendered on a full-time basis during normal working hours.

OAS identified four employees whose payrates and earnings were incorrectly reported to CalPERS. Three of the four employees' payrates in the 5/11-4 service period did not reflect the full-time payrates for the positions. The City reported reduced payrates and reduced earnings due to a furlough day occurring in the service period. The City should have reported the full-time payrate.

In tracing retroactive salary adjustments, OAS identified that the City reported incorrect payrates in retroactive transactions for two of the four employees. The City reported a payrate equivalent to the retroactive earnings instead of the new full-time payrate for the positions.

Criteria:

Government Code: § 20160, § 20636(b)(1)

CITY OF RANCHO CORDOVA

Finding 5: The City erroneously excluded one temporary/part-time employee from CalPERS membership, and enrolled one eligible temporary/part-time employee late in CalPERS membership.

Recommendations:

The City should enroll all eligible employees into CalPERS membership when membership eligibility requirements are met pursuant to Government Code Section 20305.

OAS recommends CASD identify the impact of this enrollment issue and work with the City to make the necessary adjustments to the members' accounts pursuant to Government Code Section 20160.

Conditions:

OAS reviewed the hours and compensated service by temporary/part-time employees to determine if they met CalPERS membership eligibility requirements and, if so, were timely enrolled in CalPERS membership. The hours in 2009/2010 and 2010/2011 were reviewed for five sampled employees. The results revealed that one individual was compensated for 2,293.50 hours in fiscal year 2010/2011 and met CalPERS eligibility in December 2010 by reaching 1,000 hours. However, the member was not enrolled until February 24, 2011, when the City hired the employee into a full-time position. Pursuant to Government Code § 20305(a)(3)(B), "membership is effective after he or she has completed 1,000 hours of compensated service in a fiscal year", which would include overtime pay and standby pay. In the fiscal year period that the employee worked in a temporary/part-time position, August 2, 2010 through January 17, 2011, the employee was compensated at the regular rate of pay for 917.00 regular hours and 344.00 standby hours. The employee was also compensated at time and one half for 48.50 overtime hours, for a total of 1,309.50 hours. The City should have enrolled the individual no later than the first pay period in January 2011.

Another individual was compensated for 1,112 hours in fiscal year 2009/2010 and met eligibility by reaching 1,000 hours in June 2010. The City should have enrolled the individual no later than the first pay period in July 2010. The individual was never enrolled.

Criteria:

Government Code: § 20160, § 20305

CITY OF RANCHO CORDOVA

Finding 6: The City did not provide the required health benefit documentation for one employee declining health benefits under the Public Employees' Medical and Hospital Care Act (PEMHCA).

Recommendations:

The City should use the required health benefit documentation for members who wish to decline health benefits under PEMHCA.

OAS recommends CASD work with the City to determine the impact of this noncompliance issue and ensure that the City is using the required health benefit documentation.

Condition:

The City contracted with CalPERS to provide health benefits to all eligible employees effective September 1, 2004. An employee who declines health benefits under PEMHCA must complete the required Health Benefit Plan Enrollment Form (HBD-12) declining health benefits. OAS identified one sampled employee who declined benefits; however, the form used was not the required HBD-12 form but a City generated form that did not meet the requirements.

Criteria:

Government Code: § 20160, § 22797

California Code of Regulations: § 599.500

CITY OF RANCHO CORDOVA

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 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 City 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 Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: September 2012
Staff: Michael Dutil, CIA, Senior Manager
Alan Feblowitz, CFE, Manager
Kelly Dotters-Rodriguez
Jodi Epperson

APPENDIX A

BACKGROUND

CITY OF RANCHO CORDOVA

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. In addition, 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. 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.

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 employer's 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 RANCHO CORDOVA

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 July 1, 2008, through June 30, 2011.

SUMMARY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ Reviewed:
 - Provisions of the Contract 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 CalPERS 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 compensation.
- ✓ 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.

CITY OF RANCHO CORDOVA

- ✓ Reviewed CalPERS listing reports to determine whether the following payroll reporting elements were reported correctly.
- ✓ Reviewed the City's practice for advising elected/appointed officials of their optional membership rights.
- ✓ Reviewed the City's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the City's enrollment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the City's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the City's affiliated entities to determine if the City shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the City or by the affiliated entity.
- ✓ Reviewed the City's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick.
- ✓ Reviewed health records to determine whether the City properly enrolled eligible individuals into CalPERS Health Benefits Program, if contracted for Health Benefits.

CITY OF RANCHO CORDOVA

APPENDIX C

CITY'S WRITTEN RESPONSE

2729 Prospect Park Drive • Rancho Cordova, CA 95670
Phone: (916) 851-8700 • Fax: (916) 851-8787

July 18, 2012

CalPERS
Office of Audit Services
Attention: Ms. Margaret Junker, Chief
Lincoln Plaza North
400 Q Street
Sacramento, CA 94229-2701

Dear Ms. Junker,

We appreciate the opportunity to respond to the draft report, dated June 27, 2012, regarding the compliance review of the City of Rancho Cordova. We respectfully request an extension to the July 19, 2012, deadline for responding to Finding 2, since the response period falls during previously schedule vacations, and our City Council is dark until late August 2012. On behalf of the City Manager, I am submitting the City of Rancho Cordova's response to the findings, as indicated below:

Finding 1: The City did not report the monetary value for the purchase and maintenance of uniforms to CalPERS as earnable compensation.

Agree. The City has added language in our Human Resources Manual, revised June 29, 2012, to reflect Uniform Special Compensation and has included this special compensation in pay period 1 of FY 12/13 for uniforms purchased in FY 11/12 for eligible field employees in our Neighborhood Services Program.

Finding 2: The City reported non-reportable compensation in the form of license pay, and over-reported the value of EPMC.

Disagree that the City reported non-reportable compensation in the form of license pay prior to the California Code of Regulation amendments to §571 effective August 10, 2011, and respectfully request additional time to respond to this finding that will allow the City time to address this issue with City Council by the end of September 2012.

Agree that the City over-reported the value of EPMC. The City Human Resources Department has been working with the CalPERS Payroll Unit to research and identify how to correct the administrative errors in the new MyCalPERS system.

Finding 3: The City did not have publicly available pay schedules.

Disagree. The City pay ranges (i.e., reflecting starting and ending salary steps) were posted publicly on the City website, Human Resources Department webpage, which does include City Council pay.

The City obtained approval by the City Council in resolution #47-2012, effective June 18, 2012, through adoption of the budget document referred to as "The City of Rancho Cordova Proposed Budget Fiscal Year 2012/2013," which included both the salary plan and salary ranges specified for each job class for fiscal year 2011/12 and 2012/13. The budget document is publicly posted on the City website, Finance Department webpage and linked on the Human Resources Department webpage.

The City Council pay of \$500 per month was publicly approved in Ordinance 09-2003, effective July 1, 2003, and remains posted publicly on the City Human Resources Department website.

Finding 4: Payroll reporting elements were incorrectly reported

Agree. The City Human Resources Department has been working with the CalPERS Payroll Unit to update the employee records in the MyCalPERS system that reflect retroactive pay incorrectly reported with the prior pay rate that the retroactive earnings were calculated on. We are pleased that the new MyCalPERS system is programmed to provide a warning when retroactive pay is not input with the new pay rate.

Finding 5: Temporary/part-time employees were not properly enrolled in CalPERS membership.

Partially agree. The City agrees with one audit finding that the City did not enroll an employee who exceeded the 1,000 hour rule for FY 09/10, but disagrees with the finding on the second employee. Human Resources Department staff monitor hours each fiscal year and apprise departments of hours limits, and were not aware that the hours limit was exceeded following notification in this one situation. Human Resources staff is ready to correct this deficiency upon receiving direction from CalPERS, since the individual is no longer employed by the City.

The City disagrees with the finding pertaining to the second employee not being enrolled timely. The individual reported to have worked 2,293.50 hours in fiscal year 2010/2011, was initially hired as a full-time, temporary employee on August 2, 2010, to cover behind an employee on leave, and the assignment ended on January 17, 2011, prior to reaching six months. The City did monitor hours worked to ensure the individual did not work more than 1,000 hours or exceed six months in the full-time assignment. All hours *worked* were counted, including overtime, for a total of 965.5 hours, in accordance with the CalPERS Procedures Manual.

The CalPERS Procedures Manual states on page M16, the general principles to follow to determine when and if someone is eligible for membership, if not excluded by contract or by law are as follows, in item 3:

3. Persons must otherwise be monitored to determine when and if they qualify for membership.

Qualification for membership is reached when:

- a. No term (length) of appointment is specified in the appointment/employment, but full-time employment continues **longer than six months**.
- b. The person works more than 125 days in a fiscal year if paid on a "per diem" basis (i.e., "per day"). For this purpose, "day" means each 8 hours of compensated service; e.g., a firefighter working a 24-hour shift is working 3 "days" per shift.
- c. The person works 1,000 hours in a fiscal year if paid on other than a per diem basis. **Any overtime hours worked is counted as qualifying time.**

During the audit, we were advised by the auditor that standby hours paid should have been counted as hours worked. The City did not count this time since most standby hours paid did not result in actual work. The overtime hours counted reflect the actual hours worked. If we count both the standby hours and overtime hours, then we would be counting duplicate time. The CalPERS Procedures Manual does not address the circumstance of standby hours.

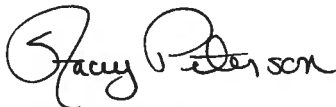
The full-time temporary assignment lasted less than six months and the City monitored regular and overtime hours worked in accordance with the CalPERS Procedure Manual. The individual had worked 965.5 hours in less than a six month period when his temporary assignment was ended on January 17, 2011. When the City rehired the individual on February 24, 2011, into a regular, full-time City position, we feel the individual was appropriately enrolled into CalPERS membership.

Finding 6: Health benefit documentation was not provided.

Agree.

Please feel free to contact me if you have any additional questions pertaining to the compliance review or the City response to the audit findings at (916) 851-8741.

Sincerely,



Stacey Peterson
Human Resources Manager

C: Ted Gaebler, City Manager