Office of Audit Services

Public Agency Review

City of Redding

CalPERS ID: 4091792151
Job Number: P14-033

December 2015

California Public Employees' Retirement System
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December 28, 2015

CalPERS ID: 4091792151
Job Number: P14-033

Sheri DeMaagd, Personnel Director
City of Redding
777 Cypress Avenue
Redding, CA 96001-2718

Dear Ms. DeMaagd:

Enclosed is our final report on the results of the public agency review completed for the City of Redding (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 1, Finding 4A, and Finding 7. We appreciate the additional information that you provided in your response. After consideration of the additional information we have modified the language in Finding 1, and removed Finding 7. The recommendation for Finding 4A remains as stated 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. 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 Redding
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

CITY OF REDDING

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RESULTS IN BRIEF

The objective of our review was to determine whether the City of Redding (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 two 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.
- Payroll information was incorrectly reported.
- Non-reportable compensation was included in regular payrate and earnings.
- Retroactive salary adjustment was incorrectly reported.
- Member contributions were incorrectly reported.

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 January 1, 1954 to provide retirement benefits for local miscellaneous employees and safety members. 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 CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from July 1, 2011 through June 30, 2014. 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 schedules did not meet all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedules in effect during the pay period ended June 7, 2014 did not meet all of the requirements of the Government Code and CCR. Specifically, the Agency did not maintain one pay schedule that identified the position title and payrate for every employee position as required by the CCR. Multiple pay schedules were needed to identify position titles. In addition, the time base was not identified for all positions.

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 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 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

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

Condition:

A. The Agency did not report the monetary value for the purchase and maintenance of uniforms for its classic employees required to wear uniforms. Specifically, the Agency provided uniforms to employees in the Electric, Public Works, Community Service, and Support Services Departments, but did not report the monetary value for the purchase, rental, and/or maintenance of the required clothing. The monetary value of uniforms is a statutory item of special compensation that is required to be reported.

B. The Agency's written labor policy containing the provision for uniforms did not meet all of the requirements of CCR 571(b)(1)(B). Specifically, the policy did not indicate the amount or the monetary value of uniforms. CCR requires that the written labor policy or agreement must contain the conditions for payment including, but not limited to, eligibility for, and amount of, the special compensation.

C. The Agency's written labor policy did not address the conditions for payment of Holiday Pay. Specifically, the Agency incorrectly added Shift Differential and Hazard Premium, reportable items of special compensation, to base payrate when calculating Holiday Premium Pay for Police and Fire employees in the pay period ended June 7, 2014. However, the written labor policies did not provide a provision to add Shift Differential or Hazard Premium to the payrate when calculating Holiday Pay. CCR Section 571 requires the written labor policy or agreement indicate the conditions for payment of the item of special compensation.

D. The Agency incorrectly reported Fair Labor Standards Act premium pay to CalPERS. The normal workweek for miscellaneous employees per FLSA is 40 hours per week. The Agency set the normal workweek for plant operators with alternating hours of 36.75 one week and 49 the next week. Government Code Section 20636(c)(6) and CCR Section 571(a) state the premium paid for the hours worked within the normally scheduled working hours that are in excess of the statutory maximum workweek shall be included as special compensation. Therefore, half-time premium should be paid for any hours in excess of 40 hours. The Agency incorrectly reported FLSA premium pay of $15.05 for 0.75 hours in the week the employee worked 36.75 hours. The Agency correctly reported FLSA premium pay on nine hours during the week the employee worked 49 hours.

E. The Agency reported an incorrect amount of special compensation for an employee. Specifically, the Agency's written labor agreement indicated that Canine Officers receive compensation for spending one-half hour per day on care and maintenance of a police dog. Upon review of an employee's payment detail, OAS identified the Agency paid and reported Canine Pay based on seven hours (.5 hours x 14 days = 7 hours) in the bi-weekly pay period ended June 7, 2014. Because the seven hours included time worked outside the employee's normal hours of employment, a portion of the Canine Pay was not reportable as special compensation.

F. The Agency incorrectly reported special compensation in base payrate and regular earnings. Specifically, the Agency reported Temporary Upgrade Pay, a reportable item of special compensation, in base payrate and regular earnings in the pay period ended June 7, 2014 for a Police Lieutenant who was temporarily upgraded to a Police Captain. The Agency should report special compensation separately from base payrate and regular earnings.

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 for 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 the compensation paid for the monetary value for the purchase, rental and/or maintenance of required clothing is reported as special compensation for classic employees.

The Agency should ensure the conditions for payment of special compensation items are contained in a written labor policy or agreement as required.

The Agency should ensure that FLSA is correctly calculated and reported to CalPERS.

The Agency should ensure it correctly reports Canine Pay.

The Agency should ensure it reports special compensation separate from base payrate and regular earnings.

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
CCR: § 571

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3: The Agency reported incorrect payroll information.

Condition:

A. The Agency reported incorrect payrates for two employees. Specifically, the Agency reported an hourly payrate of $99.99 for the City Manager and City Attorney in the pay period ended June 7, 2014. However, the Agency should have reported hourly payrates of $112.16 and $104.75, respectively. The Agency indicated its reporting software limited reported payrates to a maximum of four digits.

B. The Agency reported incorrect work hours for an employee. Specifically, the Agency reported 42 scheduled hours per week for a power plant operator in the pay period ended June 7, 2014. However, power plant operators work an average of 42.875 hours per week. As a result, the power plant operator's work week hours were understated.

Payrate and scheduled hours are important factors in computing a member's retirement allowance because service credit and final compensation are directly related to these items.

Recommendation:

The Agency should ensure payrates and scheduled hours 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: § 20120, § 20121, § 20160, § 20636

4: The Agency incorrectly included non-reportable compensation in base pay and regular earnings.

Condition:

A. The Agency incorrectly included non-reportable compensation with base pay and regular earnings. Specifically, the Agency included a one-time health insurance premium offset in Electric Department employees' base pay and regular earnings. The health insurance premium offset was reimbursement paid to the employee in lieu of health benefits. However, compensation for health insurance offsets does not meet the requirements of Government Code Section 20636 or CCR Section 571. Therefore, health insurance premium offset is not reportable compensation.

B. The Agency incorrectly included non-reportable compensation with base pay and regular earnings. Specifically, the Agency temporarily reclassified a Police Sergeant to Police Lieutenant for performing additional duties as the Interim Director of the Shasta Area Safety Communications Agency (SHASCOM) which resulted in a five percent salary increase. The compensation was for additional duties performed as the Interim Director of SHASCOM and not part of the normally required duties of a Police Lieutenant for the Agency. The salary increase and job reclassification did not qualify as special compensation, Temporary Upgrade Pay, because it did not meet the Government Code Section 20636 and CCR Section 571 requirements.

C. The Agency incorrectly included a non-reportable retroactive salary adjustment with base pay and regular earnings. Specifically, a Public Waste Supervisor received a temporary pay increase for a period of time while assuming additional duties. The Agency reported the temporary pay increase as a retroactive salary adjustment. However, the pay did not meet the definition of payrate as defined by Government Code Section 20636 or Temporary Upgrade pay since it was for performing additional duties and not working in an upgraded position or classification as defined by CCR Section 571. Therefore, the Agency should not have reported the retroactive salary adjustment.

Recommendation:

The Agency should report base pay and earnings that qualify as compensation earnable in accordance with the Government Code and CCR.

The Agency should work with EAMD to determine the impact of this erroneous reporting and make the 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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5: The Agency incorrectly reported retroactive salary adjustments.

Condition:

The Agency incorrectly reported a retroactive salary adjustment for a Senior Waste Plant Operator. Specifically, the Agency reported a retroactive adjustment for a salary increase that was effective January 16, 2013. When the Agency made the retroactive adjustment it reported an incorrect hourly payrate of $1,600.90 instead of the correct hourly payrate of $32.20.

Recommendation:

The Agency should ensure that retroactive salary adjustments are correctly reported to CalPERS.

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, § 20636
CCR: § 571

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6: The Agency incorrectly reported member contributions.

Condition:

The Agency incorrectly reported member contributions. Specifically, the Agency incorrectly reported tax deferred member contributions in the amount of $289.15 for the Personnel Director. However, based on the employee's earnings in the pay period ended June 7, 2014, the correct amount of taxed deferred member contributions was $273.66. Additionally, the Agency incorrectly reported a prior period adjustment for the pay period ended May 24, 2014 for the same employee. The Agency incorrectly reported $15.48 as employer paid member contributions. However, the Agency should have reported $15.48 as taxed deferred member contributions.

Recommendation:

The Agency should ensure it correctly reports member contributions.

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, § 20691

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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
Diana Thomas, CIA, CIDA, Senior Manager
Alan Feblowitz, CFE, Senior Manager
Aileen Wong, MBA, Lead Auditor
Patrick McCasland, CPA, Auditor
Billy Vi, Auditor

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:
- 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 time records
- o Agency payroll information including Contribution Detail Transaction History reports
- o Documents related to employee payrate, special compensation, and benefits
- o 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 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 unlawful employment occurs.
- ✓ 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 entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide additional service credits for unused sick leave.

APPENDIX B

AGENCY'S WRITTEN RESPONSE

CITY OF REDDING

PERSONNEL DEPARTMENT
PERSONNEL . RISK MANAGEMENT . VOLUNTEER SERVICES
777 Cypress Avenue, Redding, CA 96001-2718
P.O. Box 496071, Redding, CA 96049-6071
530.225.4065 FAX 530.225.4062 - Personnel
530.225.4385 FAX 530.225.4300 - Risk Management

December 1, 2015

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

Re: CalPERS ID: 4091792151
Job Number: P14-033

Dear Ms. Chappuie:

Thank you for your letter dated October 27, 2015 and the opportunity to comment on the draft report. Please find below the City of Redding's response to the draft report on the CalPERS compliance review of our agency.

Finding 1
The Agency's pay schedule did not meet all of the Government Code and CCR requirements.

City Response:
The City disagrees with portions of this finding. Please note that while the City does not have one complete all encompassing salary schedule, all salary schedules are approved by City of Redding's City Council along with the approval of all Memoranda of Understandings (MOU's) and contracts for each bargaining unit and unrepresented employee group. The City Council approved salary schedules were posted on City's website and available in the lobby of the Personnel Division. In addition, the City Council approved the employment contracts for the City Manager and City Attorney which included pay rates. The City Manager and City Attorney pay rates were also listed on the City's website. The City agrees that not all of the salary schedules denote the time base; however, all did have an effective date. The City will work with CalPERS Employer Account Management Division to make necessary adjustments.

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

2A. The agency did not report the monetary value for the purchase and maintenance of uniforms for its classic employees required to wear uniforms.

City Response:
The City agrees with this finding. The City will work with the effected bargaining units to determine the value of the provided clothing, and will work with CalPERS Employer Account Management Division to determine the appropriate reporting requirements.

2B. The Agency's written labor policy containing the provision for uniforms did not meet all the requirements of CCR 571 (b) (1) (B).

City Response:
The City agrees with this finding. The City will work with each of the effected bargaining units to determine the value of the provided clothing, and incorporate the necessary language in the applicable MOU's. The City will work the CalPERS Employer Account Management Division on adjustments, if necessary.

2C. The Agency's written labor policy did not address the conditions for payment of Holiday Pay.

City Response:
The City agrees with this finding. The City will work with the effected bargaining units to specifically address the conditions for payment of Holiday Pay as related to shift differential and hazard premium. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2D. The Agency incorrectly reported Fair Labor Standards Act premium pay to CalPERS.

City Response:
The City agrees with this finding. The City will correct the timekeeping methodology to be in compliance with FLSA and ensure the payroll programming accurately reports the FLSA premium pay to CalPERS. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2E. The Agency reported an incorrect amount of special compensation for an employee.

City Response:
The City agrees with this finding. Canine Officers receive special compensation as outlined in the written labor agreement for the care of the department K-9's. The care of these animals takes place each day regardless if the officer is on duty during the pay period; therefore, the special compensation was calculated accordingly. The City will correct the timekeeping methodology and payroll programming to ensure the special compensation pay for the Canine Officers due for the care of the K-9's only during normal working hours is reported to CalPERS. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2F. The Agency incorrectly reported special compensation in base pay rate and regular earnings.

City Response:
The City agrees with this finding. The payroll programming for temporary upgrade was corrected to comply with CalPERS prior to the City's audit review by CalPERS.

Finding 3
The Agency reported incorrect payroll information.

3A. The Agency reported incorrect pay rates for two employees.

City Response:
The City agrees with this finding. Although the pay rates were entered correctly, the City's payroll program abbreviated the salary amounts when transmitting the information to CalPERS. The City corrected the payroll programming to prevent this from happening in the future.

3B. The Agency reported incorrect work hours for an employee.

City Response:
The City agrees with this finding. The City will work with the CalPERS Employer Account Management Division to make adjustments, if necessary.

Finding 4
The Agency incorrectly included non-reportable compensation in base pay and regular earnings.

4A. The Agency incorrectly included non-reportable compensation with base pay and regular earnings.

City Response:
The City disagrees with this finding. The compensation was negotiated to be included as part of the employees' base pay to recognize the employees for paying a portion of the cost of the health insurance benefit. It was not for a health insurance supplemental benefit or in lieu of a health insurance benefit. The City will work with the appropriate bargaining unit to remove the language from the agreed upon salary schedule. The City will work the CalPERS Employer Account Management Division to make adjustments, if necessary.

4B. The Agency incorrectly included non-reportable compensation with base pay and regular earnings.

City Response:
The City agrees with this finding. The circumstances surrounding the temporary upgrade were unusual and not likely to be duplicated. The Shasta Area Safety Communications Agency (SHASCOM), 911 dispatch center, is a joint power agency with includes the City of Redding. The JPA is governed by a Board of Director which includes the City's City Manager, Fire Chief and Police Chief among others. While recruiting for the Director of SHASCOM, an immediate decision by the SHASCOM Board of Directors was made to fill the role on an interim basis. One of the City's Police Sergeant's received upgrade pay to serve as the temporary Interim Director. The City will work with the CalPERS Employer Account Management Division to make adjustments, if necessary.

4C. The Agency incorrectly included a non-reportable retroactive salary adjustment with base pay and regular earnings.

City Response:
The City agrees with this finding. The City's payroll system was reprogrammed to allow for a temporary upgrade to be given when an employee is performing additional duties without being reported compensation. The City will work with the CalPERS Employer Account Management Division to make adjustments, if necessary.

Finding 5
The Agency incorrectly reported retroactive salary adjustments.

City Response:
The City agrees with this finding. The City corrected the retroactive adjustments prior to the audit by CalPERS. CalPERS provided information to the City to assist with correcting the reporting.

Finding 6
The Agency incorrectly reported member contributions.

City Response:
The City agrees with this finding; however, the CalPERS system did not alert the City at the time of entry that an error had occurred. A correction was made to fix the entries. This was a payroll system error. The net amount reported to CalPERS was correct.

Finding 7
The Agency did not enroll an eligible part-time employee.

City Response:
The City disagrees with this finding. The audited employee is classified as a part-time employee (Status 8a). A part-time employee is defined per the bargaining unit agreement with the City as an employee hired to work less than a regular full-time employee. A status code 8a employee works for a period not to exceed 1,000 hours per fiscal year, and the City monitors all part-time employees to verify the hours worked do not exceed that amount. The employee in question worked 894.75 hours. The timekeeper keyed an additional 88.25 of unpaid hours for the fiscal year to ensure the employee's vacation and sick leave accruals were not affected by the every other Friday closure of City Hall. The employee did not receive compensation for the 88.25 hours, nor was work performed by the employee for those hours. Further, the part-time employee was not on mandatory furlough. The work hours normally worked on a City Hall facility closure day could be worked during the remainder of the work week. Mandatory furloughs were only observed by full-time employees per the side letter between the bargaining unit and the City. The City will work with the CalPERS Employer Account Management Division to make adjustments, if necessary.

In conclusion, the City of Redding is in agreement with the majority of the findings. In some cases, corrections have already been made or are in the process of being made pending final outcome of the report. We appreciate Mr. Patrick McCasland's and Mr. Billy Vi's professionalism and the time spent with City staff to complete the audit. We look forward to receiving the final report.

Sincerely,

Original signed by Sheri DeMaagd

Sheri DeMaagd
Personnel Director