

Office of Audit Services



CalPERS

Public Agency Review

City of Redlands

CalPERS ID: 7117161098
Job Number: P14-059

September 2015



California Public Employees' Retirement System
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September 30, 2015

CalPERS ID: 7117161098
Job Number: P14-059

Tommi Ng, Human Resources Manager
City of Redlands
P.O. Box 3005
Redlands, CA 92373

Dear Ms. Ng:

Enclosed is our final report on the results of the public agency review completed for the City of Redlands (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Findings 2A, 2C, 2D, 2F, and 4. We appreciate the additional information you provided on these findings. After consideration of the additional information we have removed Finding 2A from the report. As a result, Findings 2B through 2J are now listed as Findings 2A through 2H. In addition, we added clarifying language to Finding 2B and modified the language for Findings 2C, 2E and 4.

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 and 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 Redlands
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 Redlands (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.

- The pay schedule did not meet all the Government Code and CCR requirements.
- Special compensation was not reported as required.
- Reported payrates and corresponding earnings exceeded the maximum amounts listed in the pay schedule.
- The Agency incorrectly paid member contributions.
- Member reciprocal self-certification information was not maintained.
- Elected officials were not offered optional membership.
- Unused sick leave was 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 July 1, 1945 to provide retirement benefits for local miscellaneous, fire, and police employees. 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 for Fiscal Year 2014-15, 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

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January 1, 2012 through December 31, 2014. OAS expanded the scope of the review to include pay period ending January 18, 2015 in order to adequately review Holiday Pay cash-outs provided for calendar year 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 schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedule, effective July 1, 2014, did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule did not identify the payrates for each position and referenced another document in lieu of disclosing the payrate for each Agency position. Additionally, the pay schedule did not include the position title and payrate for the City Manager and City Attorney.

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 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 correctly calculate or report special compensation as required.

Condition:

- A. The Agency did not have a resolution on file to pay and report the value of Employer Paid Member Contributions (EPMC) as special compensation for police officers. The Redlands Police Officers Association (RPOA) written labor policy states that the Agency will pay six percent of the employees' member contributions, EPMC, and the Agency will report the value of the EPMC as special compensation. However, the Agency did not provide CalPERS with a resolution or ordinance of the governing body that indicates the group or class of employees, effective date, and the percent or amount of EPMC to be paid and reported for classic employees as required by CCR Section 571.
- B. The Agency incorrectly reported the value of EPMC as special compensation in pay period ended November 23, 2014 for employees of the Redlands Association of Department Directors (RADD) and the Redlands Association of Safety Management Employees (RASME). Specifically, the Agency reported four percent EPMC as special compensation for safety employees of the RADD, and nine percent EPMC as special compensation for employees of the RASME. However, the value of EPMC was not contained in written labor policies, and the pay was not approved by the governing body. As a result, the value of EPMC was not reportable as special compensation. CCR Section 571 requires that all special compensation, including the value of EPMC, be contained in a written labor policy and approved and adopted by the governing body in accordance with requirements of applicable public meetings laws.
- C. The Agency did not report the value of EPMC as special compensation for an employee in pay period ended November 23, 2014. Specifically, the Agency agreed to pay two percent of the member's contributions per the General Employees Association of Redlands written labor policy and to report the value of the EPMC as special compensation per a resolution on file with CalPERS. However, the Agency did not report the value of the EPMC as special compensation.
- D. The Agency over reported special compensation for an employee in the pay period ended January 18, 2015. Specifically, the Agency added the value of EPMC to Holiday Pay and reported the combined amount as special compensation. The Agency reported the value of EPMC again as special

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compensation, separate from the Holiday Pay. As a result, the value of EPMC was reported twice.

- E. The RASME written labor agreement did not identify the correct amount for Uniform Allowance. Specifically, the RASME written labor agreement stated that employees covered under the agreement were eligible for an annual Uniform Allowance of \$900.00. However, the Agency reported Uniform Allowance of \$1,200.00 for Fiscal Year 2013-14. Agency staff explained the \$1,200.00 Uniform Allowance was correctly reported because the RASME written labor policy stated that its members shall enjoy all wages, benefits and working conditions currently contained in the RPOA written labor policy. Because this agreement identified \$1,200.00 for Uniform Allowance, the Agency believed the employees were eligible for this amount. CCR 571 (b)(1)(F) states that a written labor policy should not reference another document in lieu of disclosing an item of special compensation.
- F. The Agency did not report the monetary value for the purchase and maintenance of uniforms as special compensation for classic employees governed by the General Employees Association of Redlands labor agreement. The agreement states that the Agency provides for the rental and laundering of uniforms for employees required to wear uniforms. However, the monetary value of the uniforms and uniform maintenance was not reported to CalPERS. Government Code Section 20636 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.
- G. The Agency incorrectly reported Uniform Allowances and Holiday Pay in lump sum amounts instead of when earned. Specifically, the Agency reported a semi-annual Uniform Allowance of \$600.00 for a police employee, \$500.00 for a fire safety employee, and \$500.00 for a civilian safety employee in the pay period ended July 6, 2014. In addition, the Agency reported a Holiday Pay cash-out of \$6,187.26 in the pay period ended January 18, 2015. The employee was required to work on holidays and the cash-out was for any hours that were not used during the year per a written labor policy. Government Code Section 20636 requires the employer to identify the pay period in which the special compensation was earned.
- H. The Agency added special compensation to the base payrate to calculate the amount of the Holiday Pay cash-out discussed in Finding 2G. To verify the reported amount was authorized and correct, OAS reviewed the applicable written labor policy and found the policy did not include the conditions for payment for the Holiday Pay cash-out. Specifically, the written labor policy

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did not address whether the Holiday Pay should include additional items of compensation or whether it should be calculated using the base rate of pay. The conditions for the payment of special compensation must be included in a written labor policy per CCR Section 571.

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 report the value of EPMC as specified in the Agency's written labor policy or agreements. The Agency should not report the value of EPMC if it is not contained in a written labor policy or approved by the governing body. Additionally, the Agency should submit a current resolution to CalPERS for review and approval.

The Agency should ensure special compensation is accurately reported and in accordance with amounts authorized in a written labor policy.

The Agency should immediately begin reporting the monetary value of employer-provided uniforms and uniform maintenance for its classic members as special compensation.

The Agency should ensure that the Uniform Allowance and Holiday Pay are correctly reported as special compensation in the period in which it was earned.

The Agency should ensure the conditions for payment of special compensation, including amounts, are included in a written labor policy.

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 reported payrates and earnings that exceeded the maximum amounts listed in the pay schedule.

Condition:

The Agency reported payrates and the corresponding earnings that exceeded the maximum payrate listed in the Agency's written labor policies and agreements for three employees in the pay period ended November 23, 2014. Specifically, OAS identified the following:

- The Agency reported a monthly payrate of \$16,995.33 for the Police Chief; however, the maximum monthly payrate listed in the pay schedule for the position of Police Chief was \$16,559.00.
- The Agency reported a monthly payrate of \$9,040.93 for a Police Sergeant; however, the maximum monthly payrate listed in the pay schedule for the position of police sergeant was \$8,778.00.
- The Agency reported a monthly payrate of \$6,395.06 for a Police Officer; however, the maximum monthly payrate listed in the pay schedule for the police officer was \$6,209.00.

Payrate and earnings are important factors in computing a member's retirement allowance because the service credit and final compensation are directly related to the payrate and earnings.

Recommendation:

The Agency should ensure that payrate and earnings are reported in accordance with the Agency's publicly available pay schedule.

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

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4: The Agency incorrectly paid members contributions.

Condition:

The Agency remitted the appropriate amount of contributions to CalPERS. However, police safety employees, who are classic CalPERS members, underpaid their portion of the member contributions and the Agency overpaid its portion of the member contributions. Specifically, the Agency agreed to split the member contributions with police safety employees, and the split was on all compensation earnable. However, the Agency did not split the contributions paid on special compensation, specifically the value of EPMC. Instead the Agency paid the full amount of the contributions.

Recommendation:

The Agency should ensure contributions are paid in accordance with its written labor policy and pursuant to Government Code Section 20691.

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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5: The Agency did not maintain the member reciprocal self-certification form for new employees.

Condition:

The Agency did not obtain the required member reciprocal self-certification for employees 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 individuals.

Recommendation:

The Agency should ensure employees hired on or after January 1, 2013 self-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 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 Codes: § 20125, § 20160, § 7522.02, § 7522.04
CCR: § 579.3

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6: The Agency did not offer optional membership to Council members.

Condition:

The Agency did not advise its Council members of their optional membership rights. Government Code Section 20322 states that an elective officer is excluded from membership in the CalPERS retirement system unless the officer files with the board an election in writing to become a member. An elective officer includes persons elected to a City Council. Government Code Section 20283 states, in part, that an employer must enroll an employee into membership when he or she becomes eligible.

Recommendation:

The Agency should work with EAMD to ensure elective officers are advised of CalPERS optional membership requirement.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20283, § 20322

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7: The Agency reported an incorrect unused sick leave balance.

Condition:

The Agency did not certify the correct number of sick leave days for a retiree. The Agency certified an unused sick leave balance of 105.33 days for a retiring member. However, the retiring member cashed out all unused sick leave upon retirement. Retiring members are eligible for additional service credit for unused sick leave accrued by the member during the normal course of employment. The total number of unused sick leave hours at retirement is converted to days to determine the additional service credit. However, if a member elects to cash out unused sick leave upon retirement, the previous balance is no longer eligible to become service credit.

Recommendation:

The Agency should ensure the correct amount of unused sick leave for retiring members is reported to CalPERS.

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 Codes: § 20160, § 20965

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Observation: The Agency's administration of contract exclusion for hourly compensated employees is not clearly defined.

The contract between CalPERS and the Agency excludes employees compensated on an hourly basis hired after January 1, 1969. In response to a 1996 CalPERS request, the Agency provided its use and interpretation of the hourly exclusion and those employee classifications compensated on an hourly basis. The Agency indicated all hourly compensated employees worked less than 1,000 hours per fiscal year. However, during the on-site review OAS identified one hourly compensated employee, who worked more than 1,000 hours in Fiscal Year 2013-14. OAS recommends the Agency work with EAMD to clearly define the Agency's application of the contract exclusion for hourly compensated employees to ensure the application is in accordance with Government Code Section 20502.

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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
Jose Martinez, Lead Auditor
Vincent Antolini, Auditor
Billy Vi, 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 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 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 for additional service credits for unused sick leave.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



HUMAN RESOURCES
DEPARTMENT
Amy Martin, SPHR
Director, HR/Risk Management
Tommi Ng, PHR
Human Resources Manager

City of
REDLANDS

Incorporated 1888
35 Cajon Street, Suite 10
P.O. Box 3005, Redlands, CA 92373
909-798-7514

Recruitment & Selection
Employee Services
Benefits Administration
Training
Employee & Labor Relations
Volunteer & Intern Resources
Workers' Compensation Administration
Safety Administration
Liability & Claims Administration

July 10, 2015

Young Hamilton
CalPERS Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Young,

Please find enclosed our written response to the draft report of the CalPERS compliance review conducted by your office.

Please feel free to contact me at 909-798-7679 or Tom Steele, Assistant Finance Director at 909-335-4775 should have any questions or need additional information.

Sincerely,

Original signed by Tommi Ng

Tommi Ng
Human Resources Manager

Encl: Written response to CalPERS Audit Report



City of Redlands

6/26/15 Draft Audit Responses

Item #1: The Agency's pay schedule did not meet all of the Government code and CCR requirements

It is agreed that the city did not provide all of the pay schedules to the city council when the salary resolution was approved in 2014. However, a complete listing of approved positions and tables is included in the Adopted Budget for the fiscal year which is available to the public through the web, Library and City Clerk's office. It is also agreed that a salary schedule for the City Manager and City Attorney was not included as these are contract positions.

On June 2, 2015 a new salary resolution was approved and all salary schedules were submitted to the city council for approval. A salary schedule for the City Manager and City Attorney was included.

Item #2: The Agency did not correctly calculate or report special compensation as required

A. Incorrectly reported Special Assignment Pay

Per an internal memorandum dated May 1, 2013, the reported pay was for "acting appointments, to evaluate the effectiveness of our reorganization and to test the new structure prior to any permanent changes being considered." As such, the reported amount should be considered temporary and reportable.

B. No resolution on file to pay and report the value of RPOA EPMC

EPMC has been reported consistently as stated in the RPOA MOUs and approved by the City Council. A separate resolution for the changes has not been approved by Council and Submitted to PERS

C. Incorrectly reporting the value of EPMC for RADD and RASME

The review period coincides with the negotiation period of all bargaining unit MOUs which were settled and approved on various dates. The reporting of EPMC has only been approved for Safety members. Since Safety Police members are covered by three different groups (2 members in RADD) there have been different implementation schedules and rates of EPMC reported for members of the respective groups.

D. Did not report the value of EPMC for GEAR

The reporting of EPMC for Miscellaneous PERS members has not been negotiated or implemented. The resolution on file contains language copied from the safety resolution that should not have been included.

E. Over reported special compensation by EPMC amount

The duplicate reporting of EPMC on Holiday Pay for the period ending January 18, 2015 was an oversight done in error and has since been corrected.

F. Over reported Uniform Allowance for RASME

While the MOU covering the period for the RASME unit states a Uniform Allowance of \$900, Article 28 provides for Equivalent Benefits with the RPOA unit. Therefore when the RPOA received a \$1,200 Uniform Allowance the same was extended to the RASME members and reported.

G. Did not report Uniform Allowance for GEAR

Previous MOUs included specific language to report the value of uniform rental as special compensation. When the language was removed, earning codes were changed and the reporting stopped.

H. Reporting Uniform and Holiday payments in lump sum

Holiday Pay and Uniform Allowance have consistently been reported at the time of payment as a total as special compensation.

I. Special Compensation added to base rate for Holiday Pay cash out

Certain special compensation payments have traditionally been included in the calculation of overtime and leave cash outs, including Holiday Pay. Language specifically stating this had been included in previous MOUs. Elimination of the language was not intended to change this practice.

Item #3: The Agency reported pay rates and earnings that exceeded the maximum amounts listed in the pay schedule

It is agreed that the pay schedules for the Department Directors and Police were not approved by council and posted on the city website. The salaries were council approved based on a negotiated increase in a city council approved Memorandum of Understanding. This increase caused these individuals to receive salaries over the maximum salary stated on the posted schedule. All schedules have since been approved and salaries are below the maximum stated.

Item #4: The Agency incorrectly paid member contributions.

The review period coincides with the negotiation period of all bargaining unit MOUs which were settled and approved on various dates. While the period of the MOU states the beginning of the fiscal year approved, implementation of the payment and reporting of salary increases and EPMC changes began the first full pay period after approval.

Item #5: The Agency did not obtain a member reciprocal self-certification from new employees.

It is agreed that all new employees were not signing the self-certification form. Only employees requesting reciprocity were providing this form. The self-certification form is now included in all new hire packets and will be received from each new employee.

Item #6: The Agency did not offer optional membership to Council members.

It is agreed that council members were not provided the option of CalPERS membership. Once a contact is provided, the city will work with EAMD to ensure the council members are provided this opportunity and identify any necessary adjustments.

Item #7: The Agency reported an incorrect unused sick leave balance.

The unused sick leave balance at retirement date should not have been reported since the MOU for the employee required payment which was done the following month.