Office of Audit Services

Public Agency Review

City of Riverbank

CalPERS ID: 2328679612
Job Number: P13-042

September 2014

California Public Employees' Retirement System
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September 19, 2014

CalPERS ID: 2328679612
Job Number: P13-042

Jill Anderson, City Manager
City of Riverbank
6707 Third Street
Riverbank, CA 95367-2305

Dear Ms. Anderson:

Enclosed is our final report on the results of the public agency review completed for the City of Riverbank (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted 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 and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: Council, City of Riverbank
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

CITY OF RIVERBANK

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Riverbank (Agency) complied with applicable sections of the California Government Code, 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 the requirements of CCR Section 570.5.
- Payrate and earnings were incorrectly reported.
- Special compensation was not reported as required by CCR Section 571.
- Eligible temporary/part-time members were not enrolled.

OAS recommends the Agency comply with applicable sections of the California Government Code, 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 December 1, 1970 to provide retirement benefits for local miscellaneous and local safety 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 Board approved plan for fiscal year 2013-14, the OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate to the Agency's retirement contract with CalPERS. The review period was limited to the examination of sampled employees, records, and pay periods from July 1, 2010 through June 30, 2013. The employees selected were not subject to the Public Employees' Pension Reform Act of 2013. The on-site fieldwork for this review was conducted from December 9 – 11, 2013. The review objectives and a summary of the procedures performed are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: Pay schedule did not meet all requirements of the Government Code and the CCR.

Condition:

The Agency's pay schedule covering mid-management and miscellaneous employees did not contain the position titles and payrates for the City Manager, Director of Finance, Director of Parks and Recreation, Local Redevelopment Authority Executive Director, Human Resources Manager, Pool Manager, and City Council Members. In addition, the pay schedule did not indicate time base. Further, the payrates for employees under employment contracts and part-time were listed in a pay scale matrix that was not duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws. As a result, the pay schedules did not meet all requirements of the CCR Section 570.5. 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.
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the 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). There are no exceptions included in Government Code Section 20636(b)(1).

Recommendation:

The Agency should ensure its pay schedules meet all Government Codes and CCR requirements.

The Agency should work with CASD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160

Criteria:

Government Codes: § 20160, § 20636(a), § 20636(b)(1), § 20636(d)
CCR: § 570.5

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2: The Agency incorrectly reported payrate and earnings.

Condition:

A. The Agency incorrectly reported payrate for an employee. Specifically, the Agency reported a monthly payrate of $11,366.19 instead of the authorized payrate of $9,471.82. As a result, the Agency over reported payrate by $1,894.37 for pay periods January 15, 2011 through June 17, 2011.

B. The Agency incorrectly reported earnings for an employee in the amount of $437.16 during pay period ending October 21, 2011. The Agency indicated it underpaid an employee by eight hours in pay period ending August 26, 2011. The Agency corrected the error and reported the compensation for the eight hours in pay period ending October 21, 2011. However, compensation is required to be reported in the pay period earned regardless when paid.

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

Recommendation:

The Agency should ensure that payrate and earnings are reported correctly.

The Agency should ensure to use the "Prior Period Adjustment" transaction type when reporting adjustments to earnings and reported in the period earned.

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

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20630(b), § 20636
CCR: § 571

3: The Agency did not report special compensation as required by the CCR.

Condition:

A. The Agency did not report the monetary value for the purchase and maintenance of uniforms as special compensation for employees required to wear uniforms. The Agency provides the uniforms and uniform maintenance to Public Work employees as specified by its written labor policy. However, the Agency did not report the monetary value for the purchase and maintenance of uniforms as special compensation. In addition, the Agency did not include the conditions for payment of the uniforms, including, but not limited to, eligibility for, and amount of, in a written labor policy or agreement as required by CCR Section 571.

B. The Agency incorrectly included special compensation in base payrate and regular earnings. Specifically, the Agency included Longevity Pay in the base payrate and regular earnings of two employees during pay period ending June 28, 2013.

Reportable special compensation is required to be contained in a written labor policy or agreement, conditions for payment including amounts are indicated, available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, historically consistent with prior payments for the job classification, not paid exclusively in the final compensation period, and not final settlement pay.

Recommendation:

The Agency should ensure that uniform allowance, excluding safety items, is reported as special compensation to CalPERS.

The Agency should ensure that special compensation items are reported separately from base payrate and regular earnings.

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

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20636
CCR: § 571

4: Temporary/part-time employees were not enrolled when eligibility requirements were met.

Condition:

The Agency did not enroll four temporary/part-time employees who had previously established CalPERS membership. The Agency should have enrolled the employees at the beginning of employment with the Agency. Pursuant to Government Code Section 20305, members who have a prior or current membership at the time of rendering services for a CalPERS employer should be enrolled upon hire. Therefore, OAS determined the Agency should have enrolled and reported earnings for the employees at the time of hire.

Recommendation:

The Agency should verify the membership status of all temporary/part-time employees. If prior membership was established, the Agency should enroll employees into membership at the beginning of their employment with the Agency.

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

Criteria:

Government Codes: § 20044, § 20160, § 20305

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CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix A. OAS limited the test of transactions to employee samples selected from the Agency's payroll 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 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, California Code of Regulations.

Respectfully submitted,

Original signed by Phyllis Miller
PHYLLIS MILLER, CPA, CIA
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Aileen Wong, Auditor

APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the Agency complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the CCR.
- Whether prescribed reporting and enrollment procedures as they relate to the Agency's retirement contract with CalPERS were followed.

SUMMARY

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 hours worked records
- o Agency payroll information including Contribution Detail Transaction History reports
- o Other documents used to specify payrate, special compensation, and benefits for employees
- o Various other documents as necessary

✓ 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 meeting laws.

✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.

CITY OF RIVERBANK

- ✓ 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 960 hours were worked in a fiscal year.

- ✓ 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 entities to determine if the Agency shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Agency or by the affiliated entity.

- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

APPENDIX B

AGENCY'S WRITTEN RESPONSE

City of Riverbank

6707 Third Street • Riverbank, CA 95367-2305
Phone: (209) 869-7101 • Fax: (209) 869-7100

August 21, 2014

Employer Code: 0834
CalPERS ID: 2328679612
Job Number: P13-042

California Public Employees Retirement System
Office of the Audit
Phyllis Miller, Acting Chief
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Miller:

First of all I want to apologize for our late written response to the draft report dated June 30, 2014. The City has reviewed the draft report and we are in agreement with the findings and recommendations listed in the report.

Audit Findings

- Pay schedule did not meet the requirement of CCR Section 570.5.
- Payrate and earning were incorrectly reported.
- Special compensation was not reported as required by CCR Section 571.
- Eligible temporary/part-time members were not allowed.

It is the City's intent to make all necessary corrections to comply with the requirements of the California Code of Regulations (CCR) and the presented audit findings. We will revise any necessary hiring and/or employment procedures and implement any recommendation that have been proposed.

We appreciate the time your agency has taken to audit our records as it has made us aware of necessary regulations that must be implemented. Should you have any questions, please contact Alvaro Zamora, Human Resources Analyst at (209) 863-7125.

Sincerely,

Jill Anderson
City Manager

Cc: Aileen Wong (e-mail)