

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of San Carlos**

**CalPERS ID: 4903591303**  
**Job Number: SP15-031**

**April 2016**



California Public Employees' Retirement System  
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April 28, 2016

CalPERS ID: 4903591303  
Job Number: SP15-031

Angie Rodriguez  
City of San Carlos  
600 Elm Street  
San Carlos, CA 94070

Dear Ms. Rodriguez:

Enclosed is our final report on the results of the public agency review completed for the City of San Carlos (Agency). CalPERS received your written response to the draft report, and a copy of the response is included as an appendix to the final report. We appreciate the additional information you provided in the response, and after consideration of this information we clarified Findings 2A and 4B. We also removed Finding 5.

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 Members, City of San Carlos  
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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# CITY OF SAN CARLOS

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## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Scope.....	1
Office of Audit Services Review Results .....	3
1: Pay Schedule .....	3
2: Special Compensation .....	5
3: Payrate.....	7
4: Retroactive Salary Adjustment .....	8
Observation: Census Data Reporting.....	10
Conclusion .....	11
Objectives .....	Appendix A
Agency's Written Response .....	Appendix B

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# CITY OF SAN CARLOS

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## RESULTS IN BRIEF

The objective of our review was to determine whether the City of San Carlos (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), California Code of Regulations (CCR) and its contract with the California Public Employees' Retirement System (CalPERS).

The Office of Audit Services (OAS) noted the following findings and observation during the review. Details are noted in the Results section beginning on page three of this report.

- Pay schedule did not meet all of the requirements of the Government Code and CCR.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Payrates were incorrectly reported.
- Retroactive salary adjustments were incorrectly reported.
- Observation: Agency records did not agree with my|CalPERS information.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, CCR and its contract with CalPERS. We also recommend the Agency work with the appropriate CalPERS divisions to resolve issues identified in this report.

## SCOPE

The Agency contracted with CalPERS effective October 1, 1943 to provide retirement benefits for local miscellaneous and safety (fire and police) employees. During the scope of review period, from July 1, 2013 through June 30, 2014, the safety police category was inactive. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and the Public Employees' Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's compliance with the PERL and its contract related to compensation and payroll reporting. Additionally, OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement

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## **CITY OF SAN CARLOS**

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No.67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through June 30, 2014. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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# CITY OF SAN CARLOS

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

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

***Condition:***

The Agency's pay schedule did not meet all the requirements of the Government Code and the CCR. Specifically, multiple pay schedules were needed to identify position titles for all employees. In addition, the monthly payrates for positions covered under the American Federation of State, County, and Municipal Employees group were incorrectly titled as hourly, and the payrates for positions covered under the Part-time Employees group did not indicate a time base.

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.

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# CITY OF SAN CARLOS

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***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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# CITY OF SAN CARLOS

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

**Condition:**

- A. The Agency incorrectly reported the monetary value for the purchase and maintenance of uniforms as lump sum amounts for a fire inspector and maintenance employees enrolled as classic members. Specifically, the Agency purchases and maintains uniforms for a fire inspector and maintenance employees. The Agency reported \$196.27 for the fire inspector and \$320.58 for a senior maintenance employee in the pay period ended December 15, 2013. Government Code Section 20636(c)(3) requires agencies to identify the pay period(s) in which special compensation was earned.

The Government Code requires that employers identify the pay period in which compensation was earned, regardless of when it is paid or reported to CalPERS. This is true whether the compensation being reported is the member's base or special compensation. All compensation is to be reported to CalPERS as earned. CalPERS relies on the information reported by employers to provide services such as retirement estimates, benefit payments and for setting the employer contribution rates. Failure to properly report information to CalPERS can result in inflated benefit payments which would cause an adjustment to the retiree's benefits plus the need to recover the benefit overpayment.

- B. The Agency's written labor agreement for maintenance employees did not include a provision for the purchase and maintenance of uniforms. CCR Section 571(b)(1) requires all items of special compensation be contained in a written labor policy.
- C. The Agency's written labor agreement covering the fire inspector contained a provision for uniforms, but did not include the condition for payment of uniforms. CCR Section 571(b)(1)(B) requires the Agency to indicate the conditions for payment of the uniform, including, but not limited to, eligibility for, and amount of, the special compensation.
- D. The Agency incorrectly reported Acting Pay in base payrate and earnings for a Recreation Leader II in the pay period ended November 3, 2013. Although Acting Pay meets the definition as listed in CCR Section 571(a), the special compensation was not included in a written labor policy or agreement as required by CCR Section 571(b). Therefore, Acting Pay was not reportable



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# CITY OF SAN CARLOS

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as special compensation and should not have been included in base payrate and earnings.

***Recommendation:***

The Agency should ensure special compensation is reported in the pay periods earned.

The Agency should ensure that both the provisions for uniforms, and the conditions for payment, are contained in written labor policies.

The Agency should report special compensation separate from base payrate and earnings.

The Agency should ensure compensation meets the Government Code and CCR requirements.

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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## CITY OF SAN CARLOS

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**3:** The Agency reported an incorrect payrate.

***Condition:***

The Agency reported an incorrect payrate for a Recreation Leader II for the January 12, 2014 through February 23, 2014 pay periods. The Recreation Leader II was paid an hourly payrate of \$16.00, but was reported an hourly payrate of \$15.24. Payrate is an important factor in computing a member's retirement allowance because service credit and final compensation are directly related to payrate.

***Recommendation:***

The Agency should ensure payrates are reported correctly.

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

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# CITY OF SAN CARLOS

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<b>4: The Agency incorrectly reported retroactive salary adjustments</b>
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**Condition:**

- A. The Agency incorrectly reported earnings of \$346.15 as a retroactive salary adjustment rather than a retroactive special compensation adjustment for a Senior Service Mechanic. The reported earnings met the definition of Off-Salary-Schedule Pay, an item of special compensation, in accordance with Government Code Section 20636 and CCR Section 571.
- B. The Agency incorrectly reported the retroactive adjustment noted in Finding 4A as a lump sum amount. Specifically, the Agency reported the \$346.15 adjustment for a one day period October 31, 2013; however, the Agency's records indicate the adjustment was for a longer period of time than one day. The Agency should have reported the retroactive special compensation adjustment in the pay periods earned.

As noted in Finding 2A, the Government Code requires that employers identify the pay period in which compensation was earned, regardless of when it is paid or reported to CalPERS. Failure to properly report information to CalPERS can result in inflated benefit payments which would cause an adjustment to the retiree's benefits plus the need to recover the benefit overpayment.

- C. The Agency also incorrectly reported a retroactive salary adjustment for a Recreation Leader II. Specifically, the Agency incorrectly reported a retroactive salary adjustment of \$37.81 for the pay period ended December 29, 2013. However, the Agency should have reported retroactive earnings of \$30.40. The additional \$7.41 was for working overtime and should not have been reported or included in the retroactive salary adjustment.

**Recommendation:**

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

The Agency should also ensure that compensation for overtime is not reported to CalPERS.

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## CITY OF SAN CARLOS

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

***Criteria:***

Government Codes: § 20120, § 20121, § 20160, § 20630, § 20635, § 20636

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## CITY OF SAN CARLOS

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**Observation:** The Agency's records do not agree with my|CalPERS information.

OAS reviewed active member census data used to calculate pension liability for the financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans*. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active) inactive, or retired), class of employee, and eligible compensation.

OAS identified discrepancies between the Agency's records and my|CalPERS database. Specifically, OAS identified three employees who had hire dates that were different from the hire dates in my|CalPERS. In addition, OAS identified two individuals who were separated by the Agency; however, they had active appointments in my|CalPERS. The Agency should work with the appropriate CalPERS division to make any corrections, if necessary.

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# CITY OF SAN CARLOS

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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

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BELIZ CHAPPUIE, CPA, MBA  
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Alan Feblowitz, CFE, Senior Manager  
Noah Schreier, Auditor

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**CITY OF SAN CARLOS**

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# APPENDIX A

## OBJECTIVES

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# CITY OF SAN CARLOS

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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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## CITY OF SAN CARLOS

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- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

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**CITY OF SAN CARLOS**

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# **APPENDIX B**

**AGENCY'S WRITTEN RESPONSE**

# CITY OF SAN CARLOS

**CITY HALL**  
600 ELM STREET  
SAN CARLOS  
CALIFORNIA 94070-1309



**ADMINISTRATIVE SERVICES DEPARTMENT**  
REBECCA MENDENHALL  
ADMINISTRATIVE SERVICES DIRECTOR  
TELEPHONE (650) 802-4221

<http://www.cityofsancarlos.org>

March 29, 2016

Ms. Beliz Chappuie  
Chief, Office of Audit Services  
California Public Employees' Retirement System  
Office of Audit Services  
PO Box 942701  
Sacramento, CA 94229-2701

*Re: Response by City of San Carlos to CalPERS Draft Public Agency Review  
CalPERS ID: 4903591303  
Job Number: SP15-031*

Dear Ms. Chappuie,

The City of San Carlos ("City") acknowledges receipt of your March 14, 2016 letter enclosing a draft report on the CalPERS audit of the City of San Carlos for compliance 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 the City's contract with the California Public Employees' Retirement System (CalPERS). I have reviewed the report as has Rebecca Mendenhall, Administrative Services Director and Tracy Kwok, Financial Services Manager. The City intends on working with CalPERS to make any corrections or adjustments required. However, the City does not agree with all the CalPERS findings. Please see below for the City's complete response.

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

The City of San Carlos maintains a comprehensive salary schedule for all positions on the City's website. The City also posts an approved and adopted salary schedule for each employee group. Each salary schedule identifies the positions within the employee group and a pay rate range for each position. The public has immediate access to this information since it is posted on our website and it is also available for review if requested from the division of Human Resources during normal business hours Monday - Friday.

Two of the six salary schedules reviewed did not properly identify the time base. The Part-Time Employee group salary schedule did not identify that the salary listed was an hourly pay rate. The American Federation of State, County, and Municipal Employees (AFSCME) group salary schedule identified the salary listed as hourly however the salary was listed monthly.

The hourly rates posted were accurate but the City agrees there were some clerical errors as the salary schedule title stated Monthly rather than Hourly. The City will work with staff to make any necessary corrections.

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

2.A: Uniform Allowance Reported as a Lump Sums.

The City disputes that it incorrectly reported uniform allowances under the applicable labor agreements and the California Code of Regulations. The City doesn't currently provide a uniform allowance. Rather, the City directly purchases the uniforms and pays for the cleaning service. Due to the nature and timing of the payment for the maintenance of the uniforms, the administrative burden was too steep to calculate and report per pay period.

Although the City disagrees with CalPERS findings, the City will need to meet and confer with affected bargaining units to reach a written agreement on both the provisions of uniforms and the conditions for reporting. Additionally, the City is willing to work with CalPERS to make any necessary corrections.

2.B: The written labor agreement for maintenance employees did not include a provision for the purchase and maintenance of uniforms.

The City does not dispute this finding and recommendation. The City will meet and confer with affected bargaining unit to reach a written agreement on both the provisions of uniforms and the conditions for reporting.

2.C: The written labor agreement for the fire inspector did not include contain a provision for the condition of payment of uniforms.

The City does not dispute this finding and recommendation. There was a side letter of agreement with the affected bargaining unit that due to a clerical oversight was inadvertently left out of the new Memorandum of Understanding. The City will meet and confer with the affected bargaining unit to reach a written agreement on both the provisions of uniforms and the conditions for reporting.

2.D: Acting Pay incorrectly reported for a Recreation Leader II in the pay period ending November 3, 2013.

The City does not dispute this finding and recommendation. Although the part-time employee was working in the capacity of a represented employee who would have been eligible for

Temporary Upgrade Pay, the Part-time Salary and Benefit Resolution did not have this same provision. The City will work with CalPERS to correct any reporting errors.

Finding #3: The Agency reported an incorrect pay rate.

The City does not dispute this finding and recommendation. Due to our data inputting error in the CalPERS reporting system, the City reported an incorrect pay rate for a Recreation Leader II for the January 12, 2014 through February 23, 2014 pay periods. However, it is important to note that although the hourly pay rate was reported in the CalPERS system incorrectly, the total earnings during these pay periods for this employee were correct and accurately reported to CalPERS.

Finding #4: The Agency incorrectly reported retroactive salary adjustments.

4.A: Incorrectly reported earnings of \$346.15 as a retroactive salary adjustment rather than a retroactive special compensation adjustment for a Senior Maintenance Worker.

The City does not dispute this finding and recommendation. The City will work with CalPERS to correct the retroactive type reported.

4.B: Incorrectly reported the retroactive adjustment in finding 4A as a lump sum amount.

The City disputes that it incorrectly reported the retroactive adjustment as a lump sum. The City entered into a settlement agreement with the Teamsters Union employees through mediation for a lump sum payment divided equally amongst the Union employees. It is the City's position that this lump sum was a negotiated settlement agreement between the City and the Union was earned when it is paid and does not necessarily represent a specific period of time.

4.C: Incorrectly reported a retroactive salary adjustment for a Recreation Leader II. The retroactive salary adjustment included \$7.41 for working overtime and should not have been included.

The City does not dispute this finding and recommendation. The City will work with CalPERS to correct any reporting errors.

Finding #5: The Agency did not maintain the required member reciprocal self-certification form for employees hired after January 1, 2013.

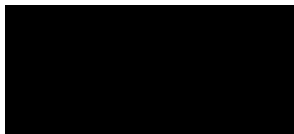
The City objects to this finding. The City does maintain the required member reciprocal self-certification form for all employees hired after January 1, 2013. The Recreation Leader II in question was hired on May 23, 2011 and became an eligible CalPERS member effective April 22, 2013. The City does not dispute that he did not fill out a member reciprocal self-certification form at the time of membership eligibility but believes that this requirement is for newly hired employees and not newly eligible members.

Observations: The Office of Audit Services identified three employees who had hire dates that were different from the hire dates in my|CalPERS and two employees who were separated from the City however they had an active appointment in my|CalPERS.

The three employees with differences in hiring dates were due to clerical errors. The membership eligibility date was entered instead of the actual hire date. The two employees who were separated but still showing as active was also a clerical error. These clerical errors were training issue and going forward we will make every effort to ensure these dates are correct. The City does not dispute this observation and once the final report is received, the City will correct these discrepancies in the my|CalPERS system.

We will work with CalPERS to correct any necessary issues once the final report is received. If any additional information is needed regarding these matters, please do not hesitate to contact me (650) 802-4171.

Sincerely,

A solid black rectangular box used to redact the signature of the sender.

Original signed by Angie Rodriguez

Angie Rodriguez  
Human Resources Manager