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March 18, 2011

Employer Code: 0194
Job Number: P09-069

City of Santa Barbara
Robert Samario, Finance Director
735 Anacapa Street
Santa Barbara, CA 93101

Dear Mr. Samario:

Enclosed is our final report on the results of the public agency review completed for the City of Santa Barbara. Your agency's written response indicates agreement with the issues noted in the report. The written response is included as an appendix to the report. As part of our resolution process, 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 Margaret Junker

MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Honorable Council Members, City of Santa Barbara
Rudy Livingston, Accounting Manager, City of Santa Barbara

Office of Audit Services



Public Agency Review

City of Santa Barbara

Employer Code: 0194
Job Number: P09-069

March 2011

CITY OF SANTA BARBARA

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CITY OF SANTA BARBARA

RESULTS IN BRIEF

We reviewed the City of Santa Barbara's (City) enrolled individuals, retirement contributions, member earnings and required retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Non-reportable compensation was reported.
- Fair Labor Standards Act (FLSA) premium pay was incorrectly reported.
- Special compensation was incorrectly reported in base payrate and regular earnings.
- Industrial Disability Retirement (IDR) determination was not made timely.
- One sampled member's unused sick leave balance was not properly certified.
- Required ACES user security agreement forms were not maintained or properly authorized and an ACES deletion form was not completed.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three

CITY OF SANTA BARBARA

consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

The City of Santa Barbara was incorporated on August 26, 1850. The City is a charter City under the laws of the State of California and operates under Council-Administrators form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. The City provides the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise and Fiduciary funds, operated in a manner similar to private business, include water, wastewater, airport, parking, golf and waterfront. Memoranda of Understanding (MOU) outline all City employees' salaries and benefits and state the terms of employment agreed upon between the City and its employees.

The City contracted with CalPERS effective August 1, 1948, to provide retirement benefits for local miscellaneous employees. The City amended the contract to include local safety, police and fire, effective July 1, 1965. The City's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the City's payroll reporting and enrollment processes as these processes relate to the City's retirement contract with CalPERS. The objective of this review was limited to the determination that the City complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on June 21, 2010 through June 24, 2010.

CITY OF SANTA BARBARA

The review period was limited to the examination of sampled records and processes from April 1, 2007 through March 31, 2010. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the City had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the City had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the City's payroll register with the data reported to CalPERS to determine whether the City correctly reported employees' compensation.
- ✓ Reviewed the City's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the City's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the City's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the City's classification of employees to determine whether the City reported employees in the appropriate coverage groups.
- ✓ Reviewed the City's process for industrial disability retirement determinations and appeals for local safety members.
- ✓ Reviewed the City's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Determined whether the City maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The City may not accurately report compensation to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of 19 employees over two service periods. The service periods reviewed were the second service period of December 2009 (12/09-4) and the second service period of March 2010 (3/10-4).</p> <p>The earnings reported to CalPERS were reconciled to the City's payroll records. The City accurately reported compensation to CalPERS for the employees in our sample, except for the reporting of non-reportable compensation for two sampled employees during the 12/09-4 and 3/10-4 service periods. Specifically,</p> <ul style="list-style-type: none"> • The City reported standby pay for one sampled employee in the amount of \$823.81 during the 12/09-4 service period and \$732.28 during the 3/10-4 service period. • The City reported standby pay for another sampled employee in the amount of \$1,479.43 during the 3/10-4 service period. 	<p>The City should discontinue reporting standby pay to CalPERS.</p> <p>The City should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The City may not accurately report compensation to CalPERS. (continued)</p>	<p>Government Code § 20630(a), states, in part, "As used in this part, 'compensation' means the remuneration paid out of funds controlled by the employer in payment for the member's services performed during normal work hours..."</p> <p>Government Code § 20636(c)(6), states, in part, "The board shall promulgate regulations that delineate more specifically and exclusively what constitutes 'special compensation' as used in this section."</p> <p>California Code of Regulations § 571(b)(4), explains that special compensation is only reportable for work "performed during normal hours of employment."</p>	
<p>2. The City may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS and reconciled the payrates to the City's public salary information and determined payrates for the sampled employees were properly authorized and reported to CalPERS.</p>	<p>None.</p>
<p>3. The City may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS for the second service period of December 2009 (12/09-4) and the second service period of March 2010 (3/10-4). Our sample testing revealed that the City correctly reported the payroll information to CalPERS except for the following instances:</p>	

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The City may not accurately report payroll information to CalPERS. (continued)</p>	<p><u>FLSA Premium Pay Was Incorrectly Reported</u></p> <p>The City paid an FLSA premium of three hours each week for fire employees who worked an average normal workweek of 56 hours per week. The City reported payroll on a bi-weekly basis. We found the City incorrectly reported regular earnings for 106 hours at the regular hourly rate of pay and reported FLSA premium pay as special compensation for six hours at 1 1/2 times the hourly rate of pay.</p> <p>The City should have reported shift employees regular earnings for 112 hours per pay period (56 hours x 2 weeks = 2,912 hours / 26 pay periods = 112) and six hours of FLSA premium pay at one-half of shift employees' regular hourly rate of pay as special compensation.</p> <p>Government Code § 20630(a), states, in part, "As used in this part, 'compensation' means the remuneration paid out of funds controlled by the employer in payment for the member's services performed during normal work hours..."</p> <p>Government Code § 20636(a), states, in part, "Compensation earnable by a member means the payrate and special compensation of the member..."</p>	<p>The City should report the correct amount of regular earnings and FLSA premium pay.</p> <p>The City should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The City may not accurately report payroll information to CalPERS. (continued)</p>	<p>Government Code, § 20636(c)(6), states, in part, "A uniform allowance, the monetary value of employer-provided uniforms, holiday pay, and premium pay for hours worked within the normally scheduled or regular working hours that are in excess of the statutory maximum workweek or work period applicable to the employee under Section 201 et seq. of Title 29 of the United States Code shall be included as special compensation and appropriately defined in those regulations."</p> <p><u>Special Compensation Reported with Base Payrate and Regular Earnings</u></p> <p>Six sampled employees had special compensation reported with base payrate and regular earnings. Specifically,</p> <ul style="list-style-type: none"> • Two employees received \$302.77 Post Officer Standard Training (POST) advance pay during the 12/09-4 and 3/10-4 service periods. • One employee received two percent special duty harbor pay of \$56.79 during the 12/09-4 and 3/10-4 service periods. • One employee received POST advance pay of \$278.31 and four percent officer pay of \$132.57 during the 12/09-4 service period and POST advance pay of 	<p>The City should report items of special compensation separately from regular earnings and base payrate.</p> <p>The City should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The City may not accurately report payroll information to CalPERS. (continued)</p>	<p>\$278.31 and six percent officer pay of \$198.85 during the 3/10-4 service period.</p> <ul style="list-style-type: none"> • One employee received engineer registration pay of \$207.41 during the 12/09-4 and 3/10-4 service periods. • One employee received bilingual pay of \$51.20 during the 3/10-4 service period. <p>These items of special compensation were incorrectly reported with base payrate and regular earnings and should have been reported separately as special compensation.</p> <p>Government Code § 20636(a), states, in part, "Compensation earnable by a member means the payrate and special compensation of the member... (b)(1) 'Payrate' means the normal monthly rate of pay or base pay of the member, pursuant to publicly available pay schedules...(c)(1) Special compensation of a member includes a payment received for special skills, knowledge, abilities, work assignments, workdays or hours, or other work conditions."</p> <p>CalPERS Procedures Manual, page 71, states, in part, "All special compensation is required to be reported separately as special compensation, as it is earned."</p>	<p>section of the report has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The City may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed the payroll information for the first service period in November 2009 (11/09-3), the second service period in December 2009 (12/09-4), and the second service period in March 2010 (3/10-4) and found that payroll information and contributions were submitted within required timeframes.</p>	<p>None.</p>
<p>5. The City may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Excluded Employees</u></p> <p>The contract between CalPERS and the City excluded firefighters and police officers who elected to remain part of the retirement program prior to contracting for safety employees through CalPERS retirement. The City did not have employees who met this criterion.</p> <p><u>Optional Membership</u></p> <p>The City's elected officials were eligible for optional CalPERS membership. We reviewed the City's enrollment practices to determine whether the elected officials were offered optional membership. Our sample testing revealed that the City properly offered and enrolled one sampled official into CalPERS membership.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of seven temporary/part-time</p>	<p>None.</p> <p>None.</p> <p>None.</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The City may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>employees to determine whether the individuals met CalPERS membership eligibility requirements. Our sample testing revealed the City properly excluded sampled employees who did not meet eligibility requirements. In addition, we determined one sampled employee had prior membership and the City correctly enrolled and reported earnings for the member.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the City's IRS 1099 Miscellaneous Income forms for calendar years 2008 and 2009 in order to identify employees that may be misclassified as independent contractors. The seven sampled individuals were properly classified as independent contractors and correctly excluded from CalPERS membership.</p>	<p>None.</p>
<p>6. The City may unlawfully employ retired annuitants.</p>	<p>We reviewed the hours worked for 12 retired annuitants in fiscal years 2007/2008 and 2008/2009. Our review revealed that the retired annuitants did not exceed the 960 hour threshold.</p> <p>We sampled four retired annuitants for bona fide separation and determined that a bona fide separation from employment, per Government Code, § 21220.5, was not needed as the sampled retired annuitants' ages at retirement were beyond the normal retirement age.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The City may not appropriately report members under the proper coverage group code.</p>	<p>Our sample testing revealed that the City reported members under the appropriate coverage group code.</p>	<p>None.</p>
<p>8. The City may not appropriately process industrial disability retirement determinations and appeals for safety members.</p>	<p>We reviewed the City's procedures for processing applications for industrial disability retirements. We found that the City had appeals procedures in place; however, the City did not make a timely determination for one of the three sampled safety members. Specifically, the City received notice of the member's application on June 22, 2006 and the determination was not made until June 11, 2007. The City did not obtain a waiver from the applicant allowing them to exceed the six-month requirement.</p> <p>Government Code § 21157, states, "The governing body of a contracting agency shall make its determination within six months of the date of the receipt by the contracting agency of the request by the board pursuant to Section 21154 for a determination with respect to a local safety member. A local safety member may waive the requirements of this section."</p>	<p>The City should ensure disability determinations are made timely or obtain a waiver from the applicant if the determination is expected to exceed six months.</p> <p>The City should work with CalPERS BNSD to assess the impact of the late disability determination and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the safety member mentioned in this section of the report has been sent to the City and CalPERS BNSD as an appendix to our draft report.</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The City may not accurately certify unused sick leave balances for retiring CalPERS members.</p>	<p>Effective April 1, 1993, the City contracted for the optional provision of Government Code, § 20965, credit for unused sick leave, for local safety fire employees. Our sample testing revealed that the City properly reported the balance of unused sick leave for the sampled retirees, except for one instance. One member had 2,712.05 hours of unused sick leave upon retirement which converted to 339.01 days; however, the City certified 306.61 days, a difference of 32.4 days.</p> <p>Government Code § 20965, states, “A local miscellaneous member and a local safety member whose effective date of retirement is within four months of separation from employment with the employer which granted the sick leave credit, shall be credited at his or her retirement with 0.004 year of service credit for each unused day of sick leave certified to the board by his or her employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member’s retirement benefit. Reports of unused days of sick leave shall be subject to audit and retirement benefits may be adjusted where improper reporting is found.”</p>	<p>The City should review the final sick leave balance of all safety fire members who retire to determine if the correct amount of unused sick days was properly certified to CalPERS.</p> <p>The City should work with CalPERS BNSD to determine the impact of this incorrect reporting and what adjustments, if any, are needed.</p> <p>A confidential list identifying the retiree mentioned in this section of the report has been sent to the City and CalPERS BNSD as an appendix to our draft report.</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>10. The City may not maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the City's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users.</p> <p>We determined the City maintained reasonable security precautions. However, the City did not maintain an ACES Employer User Security Agreement form (AESD-43) for seven authorized users. In addition, a Supervisor did not properly sign one authorized user's AESD-43. Also, the City did not properly complete and maintain a Delete ACES User Access Form (AESD-42) for one disabled user. The City completed and filed the AESD-43 and AESD-42 forms as appropriate for the affected individuals during the onsite review.</p> <p>CalPERS ACES security procedures outlined on the CalPERS website at www.calpers.ca.gov require agencies to keep a signed copy of security documents on file for ACES users. An AESD-43 must be completed for each employee using CalPERS on-line access and be available to CalPERS upon request. The AESD-42 must be completed and submitted to CalPERS when requesting the deletion of a user account. Agencies must complete and submit this form to notify CalPERS when an employee</p>	<p>The City should follow appropriate procedures to ensure the security of CalPERS ACES. Employer User Security Agreements should be completed timely and retained in a secure worksite location for the life of the Agreements and for two years following the deactivation or termination of the Agreements.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p>

CITY OF SANTA BARBARA

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
10. The City may not maintain appropriate ACES security procedures. (continued)	will no longer be an ACES user. State law requires that all CalPERS sensitive or confidential information must be protected, and used only for performing official CalPERS business. Forms must be retained in a secure work site location of the employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement. CalPERS is to be notified immediately in the event that any of its sensitive or confidential information is subjected to unauthorized disclosure, modification or destruction.	

CITY OF SANTA BARBARA

CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the City's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

Original Signed by Margaret Junker

MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: March 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Nancy Sayers
Karen Harlan

APPENDIX A

STATUS OF PRIOR REVIEW

**FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF SANTA BARBARA EMPLOYER CODE 0194
PRIOR REVIEW P02-002, DATED MARCH 2003**

<i>Prior Review Finding</i>	<i>Prior Review Recommendation</i>	<i>Status of Prior Recommendation</i>
1. Compensation reported incorrectly.	The City should stop reporting career stability pay, service betterment pay, standby pay, and tool allowance to CalPERS. The City should not report employer paid member contributions for Council members until the requirements for allowing them to be reportable are met. Also, the City should begin reporting the value of employer provided non-safety uniforms and the value of cleaning of these uniforms as special compensation.	Similar finding noted in the current report. Standby pay was reported for two sampled employees. Implemented: The City passed resolution identifying Council members in the Miscellaneous classification and had the benefit defined for the group in MOU's. Implemented: The value of uniforms and uniform maintenance were reported for non-safety employees.
2. Eligible employees not enrolled into membership timely.	The City should monitor the working hours of all temporary/part-time employees and enroll them into membership when appropriate. The City should review payroll records for temporary employees subsequent to the audit period and enroll employees who meet the membership criteria.	Implemented. No similar observations were noted.
3. Industrial disability retirement determination not made timely.	The City should ensure that all industrial disability determinations are made within six months or obtain a waiver from the local safety member.	Similar finding noted in the current report.

Conclusion: The City did not implement all of the recommendations of our prior review dated March 2003. Specifically, non-reportable compensation (standby pay) was reported for two sampled employees. In addition, the City did not properly obtain a waiver from an IDR applicant for a disability determination that exceeded six months.

APPENDIX B

CITY'S WRITTEN RESPONSE



City of Santa Barbara
Finance Department

www.SantaBarbaraCA.gov

March 2, 2011

Margaret Junker, CPA, CIA, CIDA
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

RE: Draft Audit Report – City of Santa Barbara (Employer Code 0194)

Dear Ms. Junker

Enclosed are our responses to the findings stemming from the audit of the City of Santa Barbara performed year by Karen Harlan from your office.

I apologize for the delay in providing you with our responses and appreciate the extension of time to prepare the attached responses.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Robert Samario
Finance Director

cc: Rudy Livingston, Accounting Manager
John Martony, Payroll Supervisor

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CITY OF SANTA BARBARA (0194)
Responses to Findings PERS Draft Audit Report

- 1) We agree with this finding. The City's Payroll Supervisor spoke with the auditor during the audit and we changed the pay code (545) to "non-PERSable". There were only 2 people using this pay code in 2010 and none in 2011. Tool allowance code 605 was questioned by the auditor. This has been researched and it is classified correctly as "non-PERSable" in FMS. No adjustment is needed.
- 2) None
- 3) We agree with the finding; however, there is no change to the total dollar amount reported. The auditor wanted "specialty pays" separated from other earnings. The current method has been followed since the 2003 audit. Our Payroll Supervisor will work with City Information Systems staff to see that this change is made.
- 4) None
- 5) None
- 6) None
- 7) None
- 8) We agree with the finding. Investigations and determinations in these cases can often exceed 6 months before they are resolved. We will need to work with the City's Risk Management and Human Resources staff to ensure that they obtain extensions whenever the investigation and determination will take longer than 6 months.
- 9) We agree with the finding. In the case cited, there was a timing difference between the filing of the paperwork and separation. Benefits personnel reported the lower amount but there was additional sick leave accrued after the original certification. This was an anomaly and is not anticipated to happen again.
- 10) We agree with the finding and it was corrected during the site visit. All forms were either located or completed to the satisfaction of the auditor. The problem was primarily due to long-term employees pre-dating this requirement and not having to complete the current forms when they became authorized users. All users are now in compliance with this requirement.