

Office of Audit Services



CalPERS

Public Agency Review

City of Santa Cruz

CalPERS ID: 3582898457
Job Number: BI15-019

April 2016



California Public Employees' Retirement System
Office of Audit Services
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April 28, 2016

CalPERS ID: 3582898457
Job Number: BI15-019

Marcus Pimentel, Finance Director
City of Santa Cruz
Human Resources
877 Cedar Street, Ste. 100
Santa Cruz, CA 95060

Dear Mr. Pimentel:

Enclosed is our final report on the results of the public agency review completed for the City of Santa Cruz (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. 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 Santa Cruz
Raymond Chin, Finance Manager, City of Santa Cruz
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 Santa Cruz (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 finding during the review. Details are noted in the Results section beginning on page two of this report.

- Retroactive special compensation adjustments were incorrectly reported.

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

SCOPE

The Agency contracted with CalPERS effective September 1, 1948 to provide retirement benefits for local miscellaneous and safety employees (fire and police). 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. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through October 31, 2015. 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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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency incorrectly reported retroactive adjustments.

The Agency incorrectly reported payroll information for a Fire Prevention Inspector II. Specifically, when the Agency reported retroactive special compensation adjustments for the employee, it reported an incorrect payrate. The Agency correctly compensated the Fire Prevention Inspector II for working out-of-class as a Deputy Fire Marshal from July 6, 2013 through September 27, 2013. However, the Agency reported an incorrect hourly payrate of \$50.20 when it reported the retroactive special compensation adjustments. The Agency should have reported the established payrate of \$45.93 per hour for the Fire Prevention Inspector II position. Payrates should remain stable throughout a fiscal year except for pay raises, demotions, or changes of position. The definition of a payrate in Government Code Section 20636 requires that payrates reported to CalPERS are pursuant to a publicly available pay schedule. Payrate is an important factor in computing a member's retirement allowance.

Recommendation:

The Agency should ensure that retroactive special compensation adjustments are reported with the correct payrate.

The Agency should work with CalPERS Employer Account Management Division (EAMD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20630, § 20636
CCR: § 571

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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
Alicia Watts, Manager
Emma Shaw, Auditor
Michelle O'Connor, CPA, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited to determine whether member information was accurate and the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting procedure 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 written labor policies and agreements
 - Agency salary, wage, and benefit agreements including applicable resolutions
 - Agency personnel records and employee time records
 - Agency payroll information
 - CalPERS payroll reports
 - Documents related to employee payrate 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 payroll information reported to CalPERS and reconciled payroll records, personnel records, pay schedules, and written labor policies to determine whether the Agency correctly reported scheduled work hours, whether service credit was accurate, and whether retirement benefits were correct.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



FINANCE DEPARTMENT

877 Cedar Street, Suite 100, Santa Cruz, CA 95060 • 831 420-5060 • Fax: 831 420-5172 • www.cityofsantacruz.com

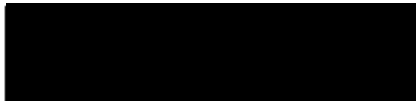
April 13, 2016

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

Dear Mr. Chappuie,

This is in response to the recent PERS audit of two City Fire employees for compliance with the Public Employees' Retirement Law (PERL) and its contract related to compensation and payroll reporting. The audit reported one finding which was that the City incorrectly reported retroactive adjustments for a Fire Prevention Inspector II who was working out-of-class as a Deputy Fire Marshall. The City concurs that the employee's retroactive special compensation adjustment was reported mistakenly with the out-of-class hourly payrate instead of the employee's established payrate for his position. The City agrees with the recommendation that retroactive special compensation adjustments are to be reported with the correct payrate. The Payroll staff has been advised that payrates should only change due to pay raises, demotions or changes of position. The City will work with the CalPERS Employer Account Management Division (EAMD) to make any necessary adjustments to the employee's member account. If there is anything else that is required of the City, please contact Raymond Chin at (831) 420-5054 or rchin@cityofsantacruz.com.

Sincerely,



Original signed by Marcus Pimentel

Marcus Pimentel
Director of Finance

cc: Raymond Chin, Finance Manager, City of Santa Cruz
Michelle O'Connor, Field Auditor, CalPERS