California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (916) 795-3240
(916) 795-0900 phone, (916) 795-4023 fax
www.calpers.ca.gov

June 19, 2012

Employer Code: 0056
CalPERS ID: 1005915265
Job Number: P11-004

City of Upland
Tanya Bragg, Senior HR Analyst
P.O. Box 460
Upland, CA 91786

Dear Ms. Bragg:

Enclosed is our final report on the results of the public agency review completed for the City of Upland. Your agency's 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 Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Honorable City Council Members, City of Upland

Office of Audit Services

Public Agency Review

City of Upland

Employer Code: 0056
Job Number: P11-004

June 2012

CITY OF UPLAND

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CITY OF UPLAND

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the City of Upland's (City) enrolled individuals, member compensation, required health and retirement documentation and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Monetary value for the purchase, rental and/or maintenance of required uniforms was not reported
- Statutory holiday pay was not reported
- Value of Employer-Paid Member Contributions (EPMC) was not reported
- Non-reportable training pay, temporary assignment pay, and education incentive pay were reported as compensation
- Publicly available pay schedule was not provided for one employee
- Payrate reported to CalPERS was higher than the public pay schedule
- Value of EPMC was incorrectly reported to CalPERS for seven employees
- Eligibility verification for dependents enrolled in CalPERS Health Benefits Program was not provided

The pertinent sections of the California Government Code and California Code of Regulations for each finding are listed in Appendix C.

CITY BACKGROUND

The City of Upland was incorporated on May 15, 1906, and utilizes a Council-Manager form of government. The City provides a wide range of traditional municipal and public enterprises services. Municipal services include general administrative support, police and fire protection, highways and streets, public improvements, planning and zoning, housing and community development, library and cultural, and recreation and parks. Public enterprise services include water, solid waste, and environmental quality (sewer). Memoranda of Understanding (MOU), Rules and Regulations, and employment agreements 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, 1944, to provide retirement benefits for local miscellaneous and safety employees. The City's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The City contracted with CalPERS effective July 1, 1987, to provide health benefits to all eligible employees.

All contracting public agencies, including the City, are responsible for the following:

- Determining CalPERS membership eligibility for its employees.
- Enrolling employees into CalPERS upon meeting membership eligibility criteria.
- Enrolling employees in the appropriate membership category.
- Establishing the payrates for its employees.
- Approving and adopting all compensation through its governing body in accordance with requirements of applicable public meeting laws.
- Publishing all employees' payrates in a publicly available pay schedule.
- Identifying and reporting compensation during the period it was earned.
- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.
- Notifying CalPERS when employees meet Internal Revenue Code annual compensation limits.
- Ensuring the employment of a retired annuitant is lawful and reinstating retired annuitants that work more than 960 hours in a fiscal year.
- Ensuring only eligible members and their dependents are enrolled for health coverage.
- Keeping accurate and up to date records of all health enrollment related information such as enrollment forms, parent-child relationship affidavits, divorce decrees, and other documentation.

SCOPE

As part of the Board approved plan for fiscal year 2011/2012, the OAS reviewed the City's payroll reporting and member enrollment processes as these processes relate to the City's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from July 1, 2008, through June 30, 2011. The on-site fieldwork for this review was conducted on August 15, 2011, through August 18, 2011. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed in Appendix B.

CITY OF UPLAND

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The City did not report the monetary value for the purchase, rental and/or maintenance of required uniforms, statutory holiday pay, and the value of EPMC to CalPERS as earnable compensation.

Recommendations:

The City should ensure that the monetary value for the purchase, rental and/or maintenance of required uniforms is reported to CalPERS.

The City should report statutory holiday pay for all employees who are normally required to work on an approved holiday and receive additional compensation.

The City should report the value of EPMC to CalPERS for all eligible employees.

OAS recommends CASD work with the City to assess the impact of this non-reporting issue. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Conditions:

Monetary Value of Required Clothing

The monetary value for the purchase, rental and/or maintenance of required clothing is a statutory item reportable to CalPERS as earnable compensation. The City provides uniforms and the maintenance of uniforms to various employee groups, such as custodians and facilities specialists. OAS obtained copies of invoices and identified that the City did not report the value of uniforms as earned compensation for the employees.

Statutory Holiday Pay

Statutory holiday pay is compensation paid to employees who are required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays. OAS obtained documentation for a dispatcher who worked on the Memorial Day holiday as part of the employee's regular schedule and earned $421.45 of holiday pay as additional compensation. OAS traced the holiday pay and identified that the City did not report the holiday pay as additional compensation.

Value of EPMC

An employer has the option of reporting the value of EPMC to CalPERS as special compensation for a group or class of employees. On March 14, 2011, the City adopted a resolution to pay and report seven percent value of EPMC for the Mid-Management and General Employees Groups. The effective date of the resolution was retroactive to July 1, 2010. OAS identified that the City did not apply a retroactive application of the value of EPMC for the City's active employees, which included three of the sampled employees tested.

Criteria:

Government Code: § 20630, § 20636(c)(4), § 20636(c)(6), § 20691

California Code of Regulations: § 569, § 571(a)(1), § 571(a)(5), § 571(b)

CITY OF UPLAND

Finding 2: The City reported non-reportable compensation in the form of training pay, temporary assignment pay, and education incentive pay to CalPERS.

Recommendation:

The City should discontinue reporting training pay, temporary assignment pay, and education incentive pay to CalPERS.

OAS recommends CASD deny all non-reportable items of compensation. CASD should make the appropriate adjustments to the members' accounts and other areas needing adjustment pursuant to Government Code Section 20160.

Condition:

Training Pay

Training pay is reportable to CalPERS as additional compensation when it meets the definition of special compensation, including that it be contained in a written labor policy or agreement. OAS identified one sampled employee who was paid training pay of $328.93 in the 11/10-4 service period tested and the City reported the amount as special compensation. The employee was a Police Dispatcher II covered under the General Employee MOU. Training pay was not included as a provision of the MOU or any other labor policy or agreement. OAS determined that the training pay was not reportable to CalPERS because it was not contained in a written labor policy or agreement and did not meet the definition of special compensation.

Temporary Assignment Pay

Temporary assignment pay is reportable to CalPERS as additional compensation when it meets the definition of special compensation, including that it be contained in a written labor policy or agreement. OAS identified one employee who was paid $279.79 in the 5/11-4 service period tested and the City reported the amount as special compensation. The employee was a Police Captain covered under the Police Captains MOU. Acting pay was not included as a provision of the MOU or any other labor policy or agreement. OAS determined that the temporary assignment pay was not reportable to CalPERS because it was not contained in a written labor policy or agreement and did not meet the definition of special compensation.

Education Incentive Pay

Education incentive pay is also reportable to CalPERS as additional compensation when it meets the definition of special compensation, including that it be contained in a written labor policy or agreement and available to all members in the group or class of employment. A group or class of employment is defined as a number of employees considered together because they share similarities in job duties, work location, collective bargaining unit, or other logical work-related grouping. OAS identified one employee who was paid $582.63 in the 11/10-4 and 5/11-4 service periods tested and the City reported the amount to CalPERS as special compensation. The employee was the City Clerk who was covered by employee agreement and the Executive Management Benefits. Pursuant to the employee's agreement with the City, the employee was to receive a ten percent increase for obtaining a bachelor's degree. The provisions of the Executive Management Benefits include a ten percent education incentive pay; however, the education must be at a Doctor of Philosophy (Ph.D) or Doctor of Jurisprudence (J.D.) level. In addition, the employee was the only executive employee receiving a ten percent education incentive pay for a bachelor's degree. Special compensation, including education incentive pay, is limited to that which is received by similarly situated members of a group or class of employment. Therefore, reportable education incentive pay for the Executive Management group is limited to employees that have a Doctor of Philosophy (Ph.D) or Doctor of Jurisprudence (J.D.).

Criteria:

Government Code: § 20636(c)(1), § 20636(c)(2), § 20636(d), § 20636(e)(1)

California Code of Regulations: § 571(b)

Finding 3: The City did not report payrates in accordance with publicly available pay schedules for one employee, and did not have publicly available pay schedules for another employee.

Recommendation:

The City should ensure payrates reported to CalPERS are in accordance with publicly available pay schedules.

The City should list all employee payrates on a pay schedule and disclose the information pursuant to publicly available pay schedules.

OAS recommends CASD work with the City to assess the impact of this incorrect reporting. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Condition:

Incorrect Payrate

OAS traced the payrates reported for sampled employees and identified one employee whose payrate was over-reported in the 7/08-3 service period tested. The City Clerk's amended employee agreement effective November 1, 2007, provided for a monthly payrate of $11,560. The City Clerk received a monthly salary increase from $11,560 to $12,080 in July 2008, pursuant to a four and one-half percent increase for all executive management employees. The salary increase was retroactive to January 1, 2008 and included in the amended City Clerk's contract effective August 11, 2008. However, the City's salary schedule, dated January 1, 2008, listed the City Clerk's maximum monthly salary as $10,745 and the subsequent salary schedule, dated January 1, 2009, listed a maximum monthly salary of $11,226. Although the $12,080 monthly payrate that was reported to CalPERS was contained in the City Clerk's authorized employment agreement, it was $1,335 higher than the 2008 public pay schedule, and $854 higher than the 2009 public pay schedule.

Publicly Available Pay Schedule

OAS identified that the City did not meet the requirement for a publicly available pay schedule for one employee. OAS traced the payrates reported for sampled employees and identified that the monthly payrate reported to CalPERS in the 7/08-3 service period for the City Manager was $21,666.67. The publicly available pay schedule effective January 1, 2008, stated the City Manager's

salary was “pursuant to contract” and did not list an amount. The employee’s amended employment agreement, effective April 1, 2008, provided for a monthly payrate of $21,666.67. Although the City reported the City Manager’s payrate pursuant to the City Manager’s authorized employment agreement, a payrate listed in an employment agreement is not in accordance with the requirements for publicly available pay schedules. The City is required to show the payrate for each identified position, which may be stated as a single amount or as multiple amounts within a range. The requirements also include that the pay schedule must not reference another document in lieu of disclosing the payrate. It was noted that the City Manager’s payrate was properly included on the City’s subsequent public pay schedules.

Criteria:

Government Code: § 20636(b)(1), § 20636(d)

California Code of Regulations: § 570.5

CITY OF UPLAND

Finding 4: The City incorrectly reported payroll reporting elements when reporting the value of EPMC to CalPERS for seven employees.

Recommendation:

The City should ensure that the value of EPMC is correctly reported for all eligible employees.

OAS recommends CASD work with the City to assess the impact of this incorrect reporting. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Condition:

An employer has the option of reporting the value of EPMC to CalPERS as special compensation for a group or class of employees. The City had a resolution on file with CalPERS to pay and report the value of EPMC for police employees. In the 5/11-4 and 11/10-4 service periods tested, the City reported incorrect payrates when reporting the value of EPMC to CalPERS for seven of the City's police employees. When reporting the value of EPMC to CalPERS as special compensation, the payrate and earnings should be equivalent. The City reported payrates that were below the reportable payrates. The amounts varied for each of the sampled employees, and ranged from $17.50 to $516.68 below the payrate reportable to CalPERS.

Criteria:

Government Code: § 20636(c)(4), § 20691

California Code of Regulations: § 571(a)(1)

CalPERS Public Agency & Schools Reference Guide, page 114

CITY OF UPLAND

Finding 5: The City did not provide verification to support dependent eligibility for family members enrolled in health benefits.

Recommendation:

The City must ensure that the proper member and dependent enrollment documentation is on file at the City within 60 days from the date of the final OAS report. The CalPERS CASD may be contacted at 1-888-CalPERS (1-888-227-7377) with any questions.

OAS recommends CASD obtain the missing documentation and cancel enrollment of any person who is found to be ineligible to participate in the CalPERS Health Benefits Program.

Condition:

The City contracted with CalPERS to provide health benefits to all eligible employees effective July 1, 1987. The City is responsible for providing employees with enrollment information and has the authority to request documentation needed to determine the eligibility of family members. OAS reviewed the health benefit verification documentation provided by the City and determined the City did not have documentation to support the verification of eligibility for five spouses, 27 children, and four step children.

Criteria:

Government Code: § 20085

California Code of Regulations: § 599.500

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the City's payroll and health 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 thirty 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 Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: June 2012
Staff: Michael Dutil, CIA, Senior Manager
Alan Feblowitz, CFE, Manager
Jodi Epperson

APPENDIX A

BACKGROUND

CITY OF UPLAND

BACKGROUND

California Public Employees' Retirement System

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 Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. CalPERS' Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Health Account Services (HAS) section, as part of the CASD, 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 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 employer's 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.

APPENDIX B

OBJECTIVES

CITY OF UPLAND

OBJECTIVES

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

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

This review covers the period of July 1, 2008, through June 30, 2011. OAS completed a prior review covering the period of April 1, 2004 to March 31, 2007.

SUMMARY

Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures, reviewed documents, and performed the following procedures. Related sample sizes, sample periods and findings are listed.

- ✓ Reviewed:
  - o Provisions of the Contract and contract amendments between the City and CalPERS
  - o Correspondence files maintained at CalPERS
  - o City Council minutes and City Council resolutions
  - o City written labor policies and agreements
  - o City salary, wage and benefit agreements including applicable resolutions
  - o City personnel records and employee hours worked records
  - o City payroll information including Summary Reports and PERS listings
  - o Other documents used to specify payrate, special compensation and benefits for all employees
  - o Health Benefits Program enrollment records and supporting documentation
  - o City ordinances as necessary
  - o Various other documents as necessary

- ✓ Reviewed City payroll records and compared the records to data reported to CalPERS to determine whether the City correctly reported compensation and earnings to CalPERS.

Sample Size and Period: Reviewed 25 employees covering two sampled service periods - the second service period in November 2010 (11/10-4), and the second service period in May 2011 (5/11-4).

See Finding 1: Monetary value for the purchase, rental and/or maintenance of required clothing, statutory holiday pay, and value of EPMC were not reported to CalPERS as compensation earnable.

See Finding 2: Non-reportable compensation in the form of training pay, temporary assignment pay, and education incentive pay were reported to CalPERS.

✓ Reviewed payrates reported to CalPERS and reconciled the payrates to City 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 City's governing body in accordance with requirements of applicable public meeting laws.

Sample Size and Period: Reviewed 25 employees covering two sampled service periods - the second service period in November 2010 (11/10-4), and the second service period in May 2011 (5/11-4).

See Finding 3: Payrate reported to CalPERS was not listed in a publicly available pay schedule for one employee, and payrate reported to CalPERS for another employee was higher than the publicly available pay schedule in the service period tested.

✓ Reviewed PERS listing reports to determine whether the following payroll reporting elements were reported correctly: contribution code, pay code, work schedule code, service period, and member contributions.

Sample Size and Period: Reviewed 25 employees covering two sampled service periods - the second service period in November 2010 (11/10-4), and the second service period in May 2011 (5/11-4).

See Finding 4: The payrate reporting element was incorrectly reported when the City reported the value of EPMC for seven sampled employees in the sample periods tested.

CITY OF UPLAND

- ✓ Reviewed the City's practice for advising elected/appointed officials of their optional membership rights.

  No Finding

- ✓ Reviewed the City's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.

  Sample Size and Period: Seven temporary/part-time employees in fiscal years 2009/2010 and 2010/2011.

  No Finding

- ✓ Reviewed the City's enrollment practices for retired annuitants to determine if retirees were reinstated when 960 hours were worked in a fiscal year.

  Sample Size and Period: Two retired annuitants covering the review period.

  No Finding

- ✓ Reviewed the City's enrollment practices pertaining to independent contractors to determine whether the individuals met CalPERS membership requirements.

  Sample Size and Period: Two independent contractors in review period.

  No Finding

- ✓ Reviewed the City's enrollment practices pertaining to affiliated parties to determine whether the individuals met CalPERS membership requirements.

  No Finding

- ✓ Reviewed the City's calculation and reporting of unused sick leave balances.

  Sample Size and Period: Four retiring members covering the review period.

  No Finding

- ✓ Reviewed health records to determine whether the City properly enrolled eligible individuals into CalPERS Health Benefits Program.

  Sample Size and Period: Ten employees and their dependents in the review period

CITY OF UPLAND

See Finding 5: The City did not provide verification of dependent eligibility for five spouses, 27 children, and four step children.

APPENDIX C

CRITERIA

CITY OF UPLAND

CRITERIA

Government Code § 20085, states, in part:

(a) It is unlawful for a person to do any of the following:
(1) Make, or cause to be made, any knowingly false material statement or material representation, to knowingly fail to disclose a material fact, or to otherwise provide false information with the intent to use it, or allow it to be used, to obtain, receive, continue, increase, deny, or reduce any benefit administered by this system….
(b) For purposes of this section, 'statement' includes, but is not limited to, any oral or written application for benefits, report of family relationship..., or continued eligibility for a benefit or the amount of a benefit administered by this system.
(c) A person who violates any provision of this section is punishable by imprisonment in a county jail not to exceed one year, or by a fine of not more than five thousand dollars ($5,000), or by both that imprisonment and fine.
(d) A person violating any provision of this section may be required by the court in a criminal action to make restitution to this system… for the amount of the benefit unlawfully obtained.

Government Code § 20630, subdivision (b), states, in part:

When compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid.

Government Code § 20636, subdivision (b)(1), states, in part:

Payrate means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules.

Government Code § 20636, subdivision (c)(1), states:

Special compensation of a member includes a payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions.

Government Code § 20636, subdivision (c)(4), states:

Special compensation may include the full monetary value of normal contributions paid to the board by the employer, on behalf of the member and pursuant to Section 20691, if the employer's labor policy or agreement specifically provides for the inclusion of the normal contribution payment in compensation earnable.

CITY OF UPLAND

Government Code § 20636, subdivision (c)(6), states:

> The board shall promulgate regulations that delineate more specifically and exclusively what constitutes “special compensation” as used in this section. 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.

Government Code § 20636, subdivision (d), states:

> Notwithstanding any other provision of law, payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny.

Government Code § 20691, states:

> Notwithstanding any other provision of law, a contracting agency or school employer may pay all or a portion of the normal contributions required to be paid by a member. Where the member is included in a group or class of employment the payment shall be for all members in the group or class of employment…The payments shall be reported simply as normal contributions and shall be credited to member accounts.

California Code of Regulations § 569, states, in part:

> A contracting agency or school employer that pays all or a portion of normal member contributions based on compensation earnable, as Employer Paid Member Contributions (EPMC), must conform to the “group or class” requirements in Section 20691 of the Government Code and these regulations.

California Code of Regulations § 570.5, subdivision (a), states:

> For purposes of determining the amount of compensation earnable pursuant to Government Code Sections 20630, 20636, and 20636.1, payrate shall be limited to the amount listed on a pay schedule that meets all of the following requirements:
>
> (1) Has been duly approved and adopted by the employer’s governing body in accordance with requirements of applicable public meetings laws;
> (2) Identifies the position title for every employee position
> (3) Shows the payrate for each identified position, which may be stated as a single amount or as multiple amounts within a range;
> (4) Indicates the time base, including, but not limited to, whether the time base is hourly, daily, bi-weekly, monthly, bi-monthly, or annually;

(5) Is 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;
(6) Indicates an effective date and date of any revisions;
(7) Is retained by the employer and available for public inspection for not less than five years; and
(8) Does not reference another document in lieu of disclosing the payrate.

California Code of Regulations § 571, subdivision (a)(1) defines the value of EPMC as:

> The full monetary value of EPMC paid to CalPERS and reported as an item of special compensation on behalf of all members in a group or class. A resolution or ordinance of the governing body must be provided to CalPERS indicating the group or class, effective date, and the percent or amount of EPMC being paid and reported as an item of special compensation. The resolution or ordinance must be formally adopted by the employer's governing body, and submitted to CalPERS for review and approval.

California Code of Regulations § 571, subdivision (a)(5) defines uniform allowance as:

> Compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing, including clothing made from specially designed protective fabrics, which is a ready substitute for personal attire the employee would otherwise have to acquire and maintain. This excludes items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes.

California Code of Regulations § 571, subdivision (b), states, in part:

> The Board has determined that all items of special compensation listed in subsection (a) are:
> (1) Contained in a written labor policy or agreement as defined at Government Code section 20049, provided that the document:
> (A) Has been duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws;
> (B) Indicates the conditions for payment of the item of special compensation, including, but not limited to, eligibility for, and amount of, the special compensation;
> (C) Is 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;
> (D) Indicates an effective date and date of any revisions;
> (E) Is retained by the employer and available for public inspection for not less than five years; and

(F) Does not reference another document in lieu of disclosing the item of special compensation;
(2) Available to all members in the group or class;
(3) Part of normally required duties;
(4) Performed during normal hours of employment;
(5) Paid periodically as earned;
(6) Historically consistent with prior payments for the job classification'
(7) Not paid exclusively in the final compensation period;
(8) Not final settlement pay; and
(9) Not creating an unfunded liability over and above PERS' actuarial assumptions.

California Code of Regulations § 599.500, contains definitions that apply to the Public Employees' Medical and Hospital Care Act, including the following pertinent provisions:
(f) "Enroll' means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing to be enrolled in a health benefits plan….
(k) "Eligible" means eligible under the law and this subchapter to be enrolled….
(n) A child attains the status of "family member" at birth…. "family member" includes any unmarried child who is economically dependent upon the employee or annuitant, when there exists a parent-child relationship with the employee or annuitant….

Public Agency Health Benefits Procedures Manual

CalPERS Public Agency Health Benefits Procedures Manual, page 03-03, states, in part, "CalPERS, as well as the contracting agency, have the right to request any documentation needed to support dependent eligibility at the time of enrollment, or any time thereafter."

CalPERS Public Agency & Schools Reference Guide

CalPERS Public Agency & Schools Reference Guide, page 114, identifies the proper way for submitting payroll when paying and reporting the value of EPMC as special compensation which includes the equivalent reporting of payrate and earnings.

APPENDIX D

STATUS OF PRIOR REVIEW

FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF UPLAND
JOB NUMBER: P06-055
DATE: SEPTEMBER 2007

Prior Review Finding	Prior Review Recommendation	Status of Prior Recommendation
1. Compensation reported incorrectly.	<u>Uniform Allowance</u> The City should immediately begin reporting the value of non-safety uniforms provided to City employees who are required to wear uniforms.	Similar finding noted in the current report. The City did not report the value of uniforms provided and maintained.
	<u>Holiday Pay</u> The City should report additional holiday compensation paid to employees who are required to work on holidays because they work in positions that require scheduled staffing without regard to holidays.	Similar finding noted in the current report. The City did not report statutory holiday pay.
	<u>EPMC</u> The City should ensure that the conversion of EPMC is correctly reported in the fire members' final compensation period.	Implemented. No similar issue identified.
	<u>Meritorious Pay</u> The City should immediately stop reporting meritorious pay.	Implemented. No similar issue identified.
	<u>Callout Pay</u> The City should immediately stop reporting callout pay.	Implemented. No similar issue identified.
	<u>Lump Sum Payments</u> The City should immediately begin to report earnings for all pay periods in which compensation is earned.	Implemented. No similar issue identified.

FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF UPLAND
JOB NUMBER: P06-055
DATE: SEPTEMBER 2007

Prior Review Finding	Prior Review Recommendation	Status of Prior Recommendation
2. Payroll reporting elements not accurately reported.	The City should immediately begin using work schedule code 243 for fire shift employees.	Implemented. No similar issue identified.
3. Payroll reports and contributions.	The City should remit retirement contributions to CalPERS no later than 15 days after the close of the pay period.	OAS no longer performs testing on payroll reports and contributions.
4. Temporary/part-time eligible employees.	The City should enroll all temporary/part-time employees including employees contracted through temporary agencies when eligibility criteria are met.	Similar finding noted in the current report. The City did not timely enroll temporary/part-time employees when eligible.
5. Remittance of health contributions.	The City should ensure health benefit premiums are remitted within required timeframes.	OAS no longer performs testing on health contribution remittances.

Conclusion: The City did not implement all of the recommendations from the prior review dated September 2007. Specifically, the City did not report the value of uniforms provided and maintained for all groups of employees, did not report statutory holiday pay for a police dispatcher, and did not timely enroll temporary/part-time employees when eligible.

APPENDIX E

CITY'S WRITTEN RESPONSE

ADMINISTRATIVE SERVICES DEPARTMENT
HUMAN RESOURCES
Telephone (909) 931-4177
Facsimile (909) 931-4301

June 14, 2012

Employer Code: 0056
Job Number: P11-004

Margaret Junker, Chief
California Public Employees' Retirement System
Office of Audit Services
P.O. Box 94229-2701

RE: Response to CalPERS Draft Audit Report for the City of Upland

Dear Ms. Junker:

This is to inform you that the City of Upland is in agreement with your draft report dated April 5, 2012 and will adjust the following audit findings accordingly:

Finding 1:	The City did not report the monetary value for the purchase, rental and or maintenance of required uniforms, statutory holiday pay and the value of EPMC to CalPERS as enable compensation.
Action:	The City's staff will work with CalPERS CASD to assess the impact of and to correct this non-reporting issue. Completion Date: June 30, 2012

Finding 2:	The City reported non-reportable compensation in the form of training pay, temporary assignment pay, and education incentive pay to CalPERS.
Action:	The City is currently in negotiation with the General Employee Bargaining Unit team to add language to address training pay for the Dispatcher Classification. Until such time, the City will not report training pay until the contract is ratified and approved by City Council. CalPERS will be notified of the change at such time.

Finding 3:	The City did not report payrates in accordance with publicly available pay schedules for one employee, and did not have publicly available pay schedules for another employee.
Action:	Payrate of the affected employee was appropriately posted and reported in fiscal year 2010-11. Also, the pay schedule for affected employee was corrected to include the pay salary range in the same fiscal year. The language pursuant to contract was deleted. No other action required.

Finding 4:	The City incorrectly reported payroll reporting elements when reporting the value of EPMC to CalPERS for seven employees.
Action:	Adjustments for the seven employees have been adjusted effective June 4, 2012. CalPERS required forms have been completed and submitted for action to the CASD. Staff has been trained on proper reporting methods.

Finding 5:	The City did not provide verification to support dependent eligibility for family members enrolled in health benefits.
Action:	The City obtained the identified sample group missing documentation of eligible family members and will cancel enrollment of any person who has been found to be ineligible to participate in the CalPERS Health Benefits Program. City's procedures are in place to prevent future audit findings in this area.

I would like to thank you in advance for your patience in awaiting the City's response and look forward to working with your staff in the future. Should you have any questions, you can either contact me by telephone at (909) 931-4174 or Stephanie Mendenhall, Administrative Services Director at (909) 931-4121.

Sincerely,

Tanya Bragg,
Sr. Human Resources Analyst
City of Upland