Herald
Fire Protection District

Public Agency Review

CalPERS

Office of Audit Services

Employer Code: 1657
Job Number: P09-030

September 2010

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September 13, 2010

Employer Code: 1657
Job Number: P09-030

Chris McGranahan, Chief
Herald Fire Protection District
P.O. Box 52
Herald, CA 95638

Dear Mr. McGranahan:

Enclosed is our final report on the results of the public agency review completed for the Herald Fire Protection District. After several emails and telephone calls to the District requesting the District's response to the Draft report, the District chose not to respond to the Draft report. However, the District has indicated agreement with the findings noted in 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, CPA, CIA, CIDA
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 Board Members, Herald Fire Protection District
Michelle Patwell, Administrative Assistant

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RESULTS IN BRIEF

We reviewed the Herald Fire Protection District's (District) enrolled individuals, retirement contributions, member earnings and required retirement 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:

- The District did not submit retirement contributions timely.
- The District did not enroll all eligible employees.

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 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 Herald Fire Protection District was established in 1946 for the purpose of providing local fire, rescue and emergency medical services to the Herald community. The District was formed pursuant to Health & Safety Code, § 13801, and is governed by a five-member Board of Directors. The District serves approximately 96 square miles.

The District contracted with CalPERS effective January 19, 1995, to provide retirement benefits for fire safety employees and later amended the contract to provide retirement benefits for miscellaneous employees. Miscellaneous employees became eligible for membership effective March 1, 2008. The District's current contract amendment identifies a three-year final compensation period for all eligible employees.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's retirement contract with CalPERS. The objective of this review was limited to the determination that the District 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 from November 9, 2009, through November 10, 2009, and also on November 12, 2009.

The review period was limited to the examination of sampled records and processes from July 1, 2006, through June 30, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the District had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the District had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the District's payroll register with the data reported to CalPERS to determine whether the District correctly reported employees' compensation.

HERALD FIRE PROTECTION DISTRICT

- ✓ Reviewed the District's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the District'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 District'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 District's classification of employees to determine whether the District reported employees in the appropriate coverage groups.
- ✓ Reviewed the District's process for industrial disability retirement determinations and appeals for local safety members.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances for retiring employees.

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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
1. The District may not accurately report compensation to CalPERS.	We reviewed payroll records and compensation paid to a sample of six employees over two service periods. The service periods reviewed were January 2007 (1/07-0) and March 2009 (3/09-0). The District correctly reported earnings for one of the sampled employees. However, the District did not enroll the other five employees into membership and therefore the employees' earnings were not reported. This issue is discussed below in Risk 5.	None.
2. The District may not report payrates in accordance with publicly available salary schedules.	We reviewed the payrate reported to CalPERS in service period 3/09-0 for the one employee enrolled into membership. We reconciled the payrate to the District's public salary information to determine whether the payrate was properly authorized and reported to CalPERS. We found the reported payrate was properly authorized and reported in accordance with a publicly available document.	None.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
3. The District may not accurately report payroll information to CalPERS.	We reviewed payroll information reported during the sampled service periods 1/07-0 and 3/09-0 for the one employee enrolled into membership. Our sample testing revealed that the District correctly reported the employee's payroll information.	None.
4. The District may fail to or did not submit payroll in a timely manner to CalPERS.	We reviewed the payroll information for service periods 1/07-0, 1/09-0, 2/09-0, and 3/09-0 and found that payroll information and contributions were submitted within required timeframes with the exception that contributions for the 1/09-0 service period were not remitted timely. California Code of Regulations, § 565, states, "Member and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer."	The District should submit payroll to CalPERS timely, and work with CalPERS ERSD to assess the impact of the untimely reporting.
5. The District may not enroll all eligible employees into CalPERS membership.	<u>Excluded Employees</u> The contract between CalPERS' Board of Administration and the District's Board of Directors: • excluded local police officers from membership, • excluded governing board members first elected or appointed prior to July 1, 1994, (as of March 1, 2008), • excluded miscellaneous employees from membership prior to March 1, 2008.	None.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The District may not enroll all eligible employees into CalPERS membership. (continued)	We found no instances during the review period where the District enrolled an excluded employee. We reviewed District records and found the District did not employ police officers, no board members were enrolled after March 1, 2008, and no miscellaneous employees were enrolled in membership during the review period. <u>Employees Eligible for Membership</u> We reviewed the membership status for four full-time fire safety employees, one full-time miscellaneous employee, and one salaried part-time fire safety employee. We found the District properly enrolled one of the full-time safety employees. In addition, the District appropriately excluded the part-time safety employee from membership, as the employee did not meet membership eligibility requirements during the review period. However, the District did not enroll the other three full-time fire safety employees and the full-time miscellaneous employee, even though the employees' membership was compulsory when hired. The three fire safety employees were hired on a full-time, permanent basis and therefore qualified for immediate enrollment. The miscellaneous employee was hired on a permanent full-time basis, subsequent to the District's	The District should immediately enroll all eligible employees into CalPERS membership, and report their payrates, regular earnings and special compensation pursuant to public salary schedules. The District should work with CalPERS ERSD to assess the impact of this non enrollment and non reporting, and determine what adjustments, if any, are needed. A confidential list identifying the individuals mentioned in this

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The District may not enroll all eligible employees into CalPERS membership. (continued)	removal of the contractual exclusion for miscellaneous employees, and, therefore, also qualified for immediate enrollment. The District should have enrolled the three full-time safety employees and one miscellaneous employee into membership when hired, and reported the employees' payrate and earnings in accordance with public salary schedules. The District also should have reported all special compensation reportable to CalPERS, such as the value of employer provided uniforms. Government Code, § 20281, states, "All members of the retirement system immediately prior to the time this part becomes operative continue to be members of this system. An employee of a contracting agency on the effective date of its contract with the board becomes a member immediately. Every other employee becomes a member upon his or her entry into employment." Government Code, § 20502, states, in pertinent part, "The contract shall include in this system all firefighters, police officers, county peace officers, local sheriffs, and other employees of the contracting agency, except as exclusions in addition to the exclusions applicable to state employees may be agreed to by the agency and the board….Membership in this system is compulsory for all	section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The District may not enroll all eligible employees into CalPERS membership. (continued)	employees included under a contract." Government Code, § 20636(a), states, “Compensation earnable by a member means the payrate and special compensation of the member, as defined by subdivisions (b), (c), and (g), and as limited by Section 21752.5.” Government Code, § 20636(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(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(c)(6), states, in pertinent part, “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…shall be included as special compensation and appropriately defined in those regulations.”	

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The District may not enroll all eligible employees into CalPERS membership. (continued)	Temporary/Part-time Employees We selected a sample of two temporary/part-time employees to determine whether the individuals met CalPERS membership eligibility requirements. We determined the two temporary/part-time employees each worked less than 1,000 hours in fiscal year 2007/2008 and appropriately were not enrolled into CalPERS membership. Independent Contractor Our testing revealed that no independent contractors worked for the District during the review period.	None. None.
6. The District may unlawfully employ retired annuitants.	Our testing revealed that there were no retired annuitants working for the District during the review period.	None.
7. The District may not appropriately report members under the proper coverage group code.	Our testing revealed that the District reported individuals under the appropriate coverage group code.	None.

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
8. The District may not appropriately process industrial disability retirement determinations and appeals for safety members.	We reviewed the District's procedures for processing applications for industrial disability retirement. We found that the District had appeal procedures in place. In addition, there were no retirees who applied for industrial disability retirement during the review period.	None.
9. The District may not accurately report unused sick leave balances for retiring CalPERS members.	Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the District. Our testing revealed that no employee retired during the review period.	None.

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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 District'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: September 2010
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