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August 20, 2010

Employer Code: 1395  
Job Number: P09-064

Little Lake Fire Protection District  
Carl Magann, Fire Chief  
74 East Commercial Street  
Willits, CA 95490

Dear Chief Magann:

Enclosed is our final report on the results of the public agency review completed for the Little Lake Fire Protection District. 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, CIA, CPA  
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, Little Lake Fire Protection District

# Little Lake Fire Protection District



## Public Agency Review



**Office of Audit Services**

**Employer Code: 1395  
Job Number: P09-064**

**August 2010**

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# LITTLE LAKE FIRE PROTECTION DISTRICT

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## RESULTS IN BRIEF

We reviewed the Little Lake 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 our observations is noted in the Risk and Mitigation Table. The following exception was noted during the review:

- Special compensation (uniform allowance) was not reported.

## 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

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reporting payroll information is necessary to accurately compute a member's retirement allowance.

The Little Lake Fire Protection District is a special district organized and existing under the constitution and laws of the State of California. The District provides fire protection services within the boundaries of its service area. Employment agreements outline all District employees' salaries and benefits and state the terms of employment agreed upon between the District and its employees.

The District contracted with CalPERS effective April 1, 1986 to provide retirement benefits for local safety (fire) and miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as three years for all coverage groups.

## 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 on May 18, 2010 through May 20, 2010.

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 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.
- ✓ Reviewed the District's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.

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- ✓ 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 members.

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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 District may not accurately report compensation to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of three employees over two service periods. The service periods reviewed were July 2009 (7/09-0) and December 2009 (12/09-0).</p> <p>The earnings reported to CalPERS were reconciled to the District's payroll records. The District accurately reported compensation to CalPERS for the employees in our sample, except for the following:</p> <p><u>Uniform Allowance Was Not Reported</u></p> <p>The firefighters employed by the District were required to wear uniforms. The District provided an allowance for the purchase and care of the uniforms. Eligible employees received \$350.00 per year, payable in December; however, the allowance was not reported to CalPERS.</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. A uniform</p>	<p>The District should immediately begin reporting uniform allowance as special compensation for those employees required to wear uniforms.</p> <p>The District should work with CalPERS ERSD to assess the impact of this non-reporting and determine what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS. (continued)</p>	<p>allowance, the monetary value of employer-provided uniforms... shall be included as special compensation...”</p> <p>California Code of Regulations, § 571(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.”</p>	
<p>2. The District 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 District’s public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. We found all payrates were properly authorized and reported for the sampled employees.</p>	<p>None.</p>
<p>3. The District may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS for the sampled service periods (7/09-0 and 12/09-0). Our sample testing revealed that the District correctly reported the payroll information to CalPERS.</p>	<p>None.</p>

# LITTLE LAKE FIRE PROTECTION DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed the payroll information for service periods March 2009 (3/09-0), July 2009 (7/09-0), December 2009 (12/09-0), and February 2010 (2/10-0), and found that payroll information and contributions were submitted within required timeframes.</p>	<p>None.</p>
<p>5. The District may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Excluded Employees</u></p> <p>The contract between the Board of Administration of CalPERS and the Board of Directors of the District excluded local police and members of the governing body from CalPERS membership. We found that the District did not employ police officers and all board members were correctly excluded from membership.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the District's IRS 1099 Miscellaneous Income forms for calendar years 2008 and 2009 in order to identify employees that may be misclassified as independent contractors. We did not identify any employees misclassified as independent contractors.</p> <p><u>Temporary/Part-Time Employees</u></p> <p>The District utilized the services of volunteer firefighters, however, these volunteers were not compensated and the</p>	<p>None.</p> <p>None.</p> <p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>District correctly excluded them from membership. No other temporary/part-time employees were found working for the District during the review period.</p>	
<p>6. The District may unlawfully employ retired annuitants.</p>	<p>We reviewed the hours worked for one retired annuitant in fiscal year 2009/2010. Our sample testing revealed that the retired annuitant did not exceed the 960 hour threshold.</p> <p>We also determined that a bona fide separation from employment, per Government Code § 21220.5, was necessary as the sampled retired annuitant's age at retirement was under the normal retirement age. However, the separation in service was more than 60 calendar days between the date of the member's retirement and the first day of work as a retired annuitant, as described in the California Code of Regulations, § 568.2. As a result, the member met the bona fide separation in service requirement.</p>	<p>None.</p>
<p>7. The District may not appropriately report members under the proper coverage group code.</p>	<p>Our sample testing revealed that the District reported individuals under the appropriate coverage group code.</p>	<p>None.</p>

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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 (IDR). There were no applications for IDR during the review period; however, the District had procedures in place for processing applications and appeals.	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 sample testing revealed that the District properly reported the balance of unused sick leave for one sampled retiree.	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.

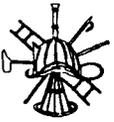
Respectfully submitted,

Original Signed by Margaret Junker  
Margaret Junker, CIA, CPA, CIDA  
Chief, Office of Audit Services

Date: August 2010  
Staff: Michael Dutil, CIA, Senior Manager  
Diana Thomas, CIDA, Manager  
Terry Heffelfinger  
Nancy Sayers

# APPENDIX

## DISTRICT'S WRITTEN RESPONSE



# LITTLE LAKE FIRE DISTRICT



74 East Commercial Street • Willits, California 95490  
(707) 459-6271 • Fax (707) 459-7898 • willitsfire@sbcglobal.net

August 9, 2010

Office of Audit Services  
Margaret Junker, Chief  
PO Box 94270  
Sacramento, CA 94229-2701

Referral: Employer Code: 1395  
Job Number P09-064

Dear Ms. Junker,

We have received and reviewed the PERS compliance review for the Little Lake Fire Protection District. I am glad to see that we are mostly in compliance except for one identified issue.

Our Administrative Assistant is in agreement that the clothing allowance in question should have been reported as part of total compensation for our full time participating employees; as it was explained to her by Nancy Sayers when she was here to do the evaluation. We are making efforts to correct that identified issue so that we may become fully compliant.

There is still the question on the potential impact to our department regarding this deficiency, and the corrective measures that will have to be taken to satisfy the needs of CalPERS.

Thank you for assisting our department and ensuring we are doing the best we can for our employees.

If I or my staff can provide you any further assistance, please feel free to contact us.

Respectfully,

Carl Magann  
Fire Chief