

Office of Audit Services



Public Agency Review

North Tahoe Fire Protection District

**CalPERS ID: 4839581566
Job Number: BI15-016**

July 2016



California Public Employees' Retirement System
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July 29, 2016

CalPERS ID: 4839581566
Job Number: BI15-016

Nita Wracker, Administrative Manager
North Tahoe Fire Protection District
P.O. Box 5879
Tahoe City, CA 96145

Dear Ms. Wracker:

Enclosed is our final report on the results of the public agency review completed for the North Tahoe Fire Protection District (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: Board of Directors, North Tahoe Fire Protection District
Michael Schwartz, Fire Chief, North Tahoe Fire Protection District
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

NORTH TAHOE FIRE PROTECTION DISTRICT

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NORTH TAHOE FIRE PROTECTION DISTRICT

RESULTS IN BRIEF

The objective of our review was to determine whether the North Tahoe Fire Protection District (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 findings during the review. Details are noted in the Results section beginning on page two of this report.

- Payrates were incorrectly reported.
- Special compensation was not reported in accordance with the Government Code and CCR.

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 18, 1993, to provide retirement benefits for local miscellaneous and fire safety employees. 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 fire safety 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.

NORTH TAHOE FIRE PROTECTION DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency incorrectly reported payrates.

- A. The Agency reported an incorrect payrate for a Firefighter prior to the Firefighter's retirement on October 1, 2014. The Agency reported the Firefighter's payrate as \$38.50 per hour from December 28, 2013 through June 27, 2014. However, the Firefighter's actual hourly payrate was \$24.85. The Agency explained that the reported payrate of \$38.50 was a typographical error and that the correct payrate was \$24.85. Based on the Agency records, the reporting continued until September 19, 2014, just before the Firefighter's retirement on October 1, 2014.

The retired Firefighter's one year final compensation calculation at retirement included the period December 28, 2013 through September 19, 2014, in which the payrate was incorrectly reported as \$38.50 instead of \$24.85. Although the CalPERS Employer Account Management Division (EAMD) identified the payrate reporting error at the time the member retired, and used the correct payrate of \$24.85 to calculate the employee's one year final compensation amount, the Agency did not correct the misreporting. If EAMD had not caught the error, the incorrect payrate could have resulted in the Firefighters retirement allowance being overstated by as much as 41 percent, or \$1,273.34, per month.

Furthermore, the misreporting may have caused the member's service credit to be understated. Service credit accrues on a fiscal year basis and is derived from the payrate and earnings reported to CalPERS. The misreporting did not affect the member's service credit for Fiscal Year 2013-14 as the member accrued the maximum of one full service credit for the year. However, it appears the service credit accrued in Fiscal Year 2014-15 was understated by 0.139 years due to the misreporting.

Service credit is a critical element used in calculating member benefits and incorrect service credit will have a significant impact to a member's retirement allowance. The effect to the member's retirement allowance appears to have resulted in an underpayment of the member's retirement allowance by approximately \$30.30 per month. It is important to submit the appropriate corrections to CalPERS when payrates and or earnings are misreported due to the direct impact to members' final retirement benefits.

NORTH TAHOE FIRE PROTECTION DISTRICT

- B. The Agency also incorrectly reported the hourly payrate for a Battalion Chief. The Agency reported the Battalion Chief's payrate as \$33.31 per hour from July 13, 2013, through December 27, 2013. However, effective December 28, 2013, the Agency reported an increased payrate of \$38.52. The Agency explained that the reported payrate of \$38.52 was a typographical error and that the correct payrate should have been \$35.82. Based on the Agency records, the reporting error continued until at least December 12, 2014.

If the Battalion Chief were to retire at the end of December 2014, the monthly retirement could have been overstated by as much as eight percent. The Battalion Chief's hourly payrate reported to CalPERS from December 28, 2013 through December 12, 2014 was \$38.52 and then changed to \$35.82 per hour on December 13, 2014. To determine the Battalion Chief's estimated one year final compensation, the hourly payrates would be multiplied by 56 hours to reach an estimated one year final compensation amount of \$111,768.67. The annual amount would convert to an estimated average of \$9,314.06 per month. However, the Battalion Chief's payrate was actually \$35.82 from December 28, 2013 through December 12, 2014. Using the correct payrate of \$35.82, the Battalion Chief's estimated one year final compensation amount would have been \$104,307.84, or \$8,692.32 per month. The final compensation amount would then be used in determining the Deputy Fire Chief's monthly retirement allowance. In the event the Battalion Chief retired after December 2014, and had reached 30 years of service, the monthly retirement allowance would have been overstated by approximately \$559.56. Therefore, reporting accurate payroll information is essential in calculating correct member benefits at retirement.

Recommendation:

The Agency should ensure that payrates are reported correctly and in accordance with publicly approved pay schedules.

The Agency should work with EAMD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Code: § 20120, § 20121, § 20160, § 20636, § 20962
CCR: § 570.5

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2: The Agency did not report special compensation in accordance with the Government Code and CCR.

- A. The Agency's written labor policy for fire safety employees did not include all conditions for Longevity Pay. Specifically, the written labor policy contained a provision that, after 10 years of service, an employee would receive a pay increase of five percent. However, the written labor policy did not clearly state whether the five percent would include the base payrate and special compensation, such as Paramedic Pay, or if it was calculated on base payrate only. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the eligibility for, and amount of, the special compensation.
- B. The Agency incorrectly reported Holiday Pay amounts for a Firefighter in Fiscal Year 2013-14, prior to their retirement in October 2014. The Agency's written labor policy provided for Holiday Pay of 4.5 percent of base pay for fire safety employees who are required to work on holidays. However, the Agency paid the Holiday Pay based on 4.5 percent of base pay plus special compensation of Paramedic Pay and Longevity Pay, which increased the Holiday Pay reported to CalPERS by \$425.72 for Fiscal Year 2013-14.
- C. The Agency also incorrectly reported Uniform Allowance in a lump sum amount for the retired Firefighter discussed in Finding 2B in Fiscal Year 2013-14. Specifically, the Agency reported the Uniform Allowance as an annual lump sum amount of \$741.00 in the pay period ended January 24, 2013 instead of in the pay periods in which it was earned. Pursuant to Government Code Section 20636 (c)(3), the Agency shall identify the pay period(s) in which the special compensation was earned when reported to the Board.

Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, special compensation is required to be contained in a written labor policy or agreement indicating the eligibility and amount of special compensation. Also, special compensation must be available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, and historically consistent with prior payments for the job classification.

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Recommendation:

The Agency should ensure that the written labor policy or agreement clearly contains the conditions and amount for Longevity Pay as required by the CCR.

The Agency should ensure that the special compensation, Holiday Pay, is reported in accordance with the conditions set forth in the Agency's written labor policy or agreement.

The Agency should ensure that special compensation is correctly reported in the pay period earned.

The Agency should work with EAMD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Code: § 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

NORTH TAHOE FIRE PROTECTION DISTRICT

APPENDIX A

OBJECTIVES

NORTH TAHOE FIRE PROTECTION DISTRICT

OBJECTIVES

The objectives of this review were 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 procedures prescribed in the Agency's retirement contract with CalPERS.

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.

NORTH TAHOE FIRE PROTECTION DISTRICT

APPENDIX B

AGENCY'S WRITTEN RESPONSE

P.O. Box 5879
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wracker@ntfire.net



June 24, 2016

Beliz Chappuie, Chief
Office of Audit Services
Cal PERS
PO Box 942701
Sacramento, CA 94229-2701

Job Number: BI15-016
Cal PERS ID: 4839581566

Chief Chappuie:

Thank you for the opportunity to respond to the draft audit report. It was a pleasure working with Michelle O'Connor. She was patient and helpful during the audit process and provided excellent assistance in helping us ensure the issues identified in the audit will be corrected and are not repeated going forward.

Audit finding #1 – incorrectly reported pay rates. We agree with this finding and we are currently working with a representative of EAMD to make adjustments to correct these pay rates. To ensure this error will not be repeated going forward, we have contracted out the process for PERS payroll reporting to another agency will provides us with an additional check regarding the accuracy of the information reported.

Audit finding #2 – special compensation was not reported in accordance with Government code and CCR. We agree with these findings.

- A. We are currently working with our Labor group and Board of Directors to create a side letter to the current Memorandum of Understanding which will clarify the types of pay used to calculate longevity pay. This side letter will indicated that longevity pay is calculated on base pay and paramedic premium.
- B. We are currently working with our Labor group and Board of Directors to create a side letter to the current Memorandum of Understanding which will clarify the types of pay used to calculate holiday pay. This side letter will

indicated that holiday pay is calculated on base pay, paramedic premium and longevity pay.

- C. We will correct the reporting of uniform allowance by creating an adjustment report to record uniform amounts as they are earned. Going forward uniform allowance amounts will be recorded as earned.

Sincerely,



Original signed by Nita Wracker

Nita Wracker, CPA
Admin. Manger