California Public Employees' Retirement System
Office of Audit Services
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December 17, 2012

Employer Code: 1333
CalPERS ID: 6102771088
Job Number: P09-063

Pleasant Hill - Martinez Joint Facilities Agency
Alan Shear, Assistant City Manager
525 Henrietta St
Martinez, CA 94553

Dear Mr. Shear:

Enclosed is our final report on the results of the public agency review completed for the Pleasant Hill - Martinez Joint Facilities Agency. 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
Anthony Suine, Chief, BNSD, CalPERS

Office of Audit Services

Public Agency Review

Pleasant Hill-Martinez Joint Facilities Agency

Employer Code: 1333
Job Number: P09-063

December 2012

PLEASANT HILL-MARTINEZ JOINT FACILITIES AGENCY

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PLEASANT HILL-MARTINEZ JOINT FACILITIES AGENCY

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Pleasant Hill-Martinez Joint Facilities Agency's (Agency) enrolled individuals, member compensation, required retirement information 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:

- Non-reportable compensation was reported.
- Special compensation was not included in a written labor agreement.
- Special compensation was incorrectly reported with base payrate and regular earnings.
- Eligible part-time employee was not enrolled into membership timely.

This review did not include a determination as to whether the Agency is a "public agency" (as that term is used in the California Public Employees' Retirement Law), and OAS therefore expresses no opinion or finding with respect to whether the Agency is a public agency or whether its employees are employed by a public agency. In addition, this review did not include a determination as to whether the individuals reported by the Agency were Agency employees or employees of another entity (City of Martinez) and therefore expresses no opinion or finding with respect to whether these individuals were employees of the Agency or another entity. OAS will continue with a focused review on the employee/employer relationship of the individuals and will issue a separate report pertaining to the employee/employer status determination upon conclusion of our focused review.

AGENCY BACKGROUND

The Pleasant Hill-Martinez Joint Facilities Agency was established for the purpose of providing cost-effective services for employees participating in the Miscellaneous CalPERS retirement plan. The Agency is controlled by the City of Martinez and has the same governing body as the City of Martinez, which also performs all accounting and administrative functions for the Agency.

The Agency contracted with CalPERS effective February 1, 1983, to provide retirement benefits for local miscellaneous employees. The Agency's current contract amendment identifies the length of the final compensation period as one year for all coverage groups.

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All contracting public agencies, including the Agency, 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 2009/2010, the OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate to the Agency's retirement contract with CalPERS. The review period was limited to the examination of sampled records and processes from January 1, 2007, through December 31, 2009. The on-site fieldwork for this review was conducted from May 24, 2010, through May 28, 2010. The review objectives and a summary of the procedures performed are listed in Appendix B.

PLEASANT HILL-MARTINEZ JOINT FACILITIES AGENCY

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The Agency erroneously reported automobile allowance, bonus pay, and acting pay to CalPERS.

Recommendations:

Only compensation earnable, as defined under Government Code Section 20636 and the corresponding regulations, can be reported to CalPERS and considered in calculating retirement benefits.

The Agency should immediately stop reporting bonus pay and acting pay that does not meet the definition of special compensation. In addition, the Agency should immediately stop reporting the compensation received in-lieu of automobile allowance.

OAS recommends CASD deny all non-reportable items of compensation. CASD should make the necessary adjustments to the members' accounts, if any, pursuant to Government Code Section 20160.

Conditions:

The Agency paid and reported bonus pay and acting pay to CalPERS; however, these items of compensation did not meet the definition of special compensation. Although bonus and temporary upgrade pay are identified as items of special compensation under the California Code of Regulations Section 571(a), the Agency's application of these pays did not conform to the regulations definition of reportable special compensation. In addition, the Agency incorrectly added $450 per month to the reported base payrate and regular earnings in-lieu of automobile allowance for one sampled employee. California Code of Regulations Section 571(a) exclusively identifies and defines special compensation items that should be reported to CalPERS. Automobile allowance is not listed as an item of special compensation under this regulation.

Criteria:

Government Code § 20049, § 20160, § 20636(a), § 20636(c)(1), § 20636(c)(2), § 20636(c)(6), § 20636(d)

California Code of Regulations § 571(a), § 571(b), § 571(c), § 571(d)

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Finding 2: The Agency erroneously reported special compensation that was not contained in a written labor agreement.

Recommendation:

The Agency should discontinue reporting the value of Employee Paid Member Contributions (EPMC) as it is not contained in a written labor agreement.

OAS recommends CASD deny all items of compensation that are not contained in a written labor agreement. CASD should make the appropriate adjustments to the members' accounts, if any, and other areas needing adjustment pursuant to Government Code Section 20160.

Condition:

The Agency incorrectly reported the value of EPMC as special compensation for a sampled part-time employee. Specifically, the Agency did not have a written policy or agreement that allowed the value of EPMC to be reported as an item of special compensation for part-time employees. Special compensation is limited to that which is received by a member pursuant to a labor policy or agreement per Government Code Section 20636(c)(2).

Criteria:

Government Code: § 20160, 20636(a), § 20636(c)(2), § 20636(c)(4)

California Code of Regulations: § 571(a), § 571(a)(1), § 571(a)(2), § 571(a)(3)

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Finding 3: The Agency erroneously reported special compensation in base payrates and regular earnings.

Recommendation:

The Agency should immediately begin reporting items of special compensation separately from base payrate and regular earnings.

OAS recommends CASD work with the Agency to ensure special compensation is reported separately and not included in payrates. CASD should work with the Agency to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.

Condition:

We reviewed the payroll information reported to CalPERS for service period 11/09-2 for the 15 sampled employees. Our sample testing revealed that the Agency erroneously included bilingual pay, bonus pay, longevity pay, and education pay as part of the members' base payrate and regular earnings. Items of special compensation should not be reported as payrate and regular earnings.

Criteria:

Government Code § 20636(a), § 20636(b)(1), § 20636(c)(1), § 20636(c)(2)

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Finding 4: The Agency did not enroll a temporary/part-time employee timely.

Recommendation:

The Agency should begin enrolling and reporting eligible temporary/part-time employees when membership eligibility requirements are met. The Agency should also implement procedures to review and monitor the number of hours worked in a fiscal year for its temporary/part-time/employees in order to timely enroll eligible employees into CalPERS membership.

OAS recommends CASD work with the Agency to assess the impact of this enrollment issue and determine what adjustments are needed. CASD should make the necessary adjustments to member's account pursuant to Government Code Section 20160.

Condition:

We sampled four part-time employees during fiscal years 2007/2008 and 2008/2009 to determine whether the employees met CalPERS membership eligibility requirements. Our testing revealed one sampled employee worked a total of 1,005 hours during fiscal year 2007/2008 by the service period ending June 15, 2008. The employee should have been enrolled into membership no later than July 1, 2008, but was not enrolled until August 4, 2008.

Criteria:

Government Code § 20305(a)(3)(B)

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 Agency'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. Since OAS did not review whether the Agency is a "public agency" (as that term is used in the California Public Employees' Retirement Law), or whether the individuals reported by the Agency were Agency employees or employees of another entity, this report expresses no opinion or finding with respect to whether the Agency is a public agency or whether its employees are employed by a public agency. OAS will issue a separate report pertaining to the employee/employer status determination of the individuals reported by the Agency.

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, California Code of Regulations.

Respectfully submitted,

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

Date: December 2012
Staff: Michael Dutil, CIA, CRMA, Senior Manager
Diana Thomas, CIA, CIDA, Manager
Alan Feblowitz, CFE, Manager
Terry Heffelfinger, Auditor

PLEASANT HILL-MARTINEZ
JOINT FACILITIES AGENCY

APPENDIX A

BACKGROUND

PLEASANT HILL-MARTINEZ JOINT FACILITIES AGENCY

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 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. 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.

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

PLEASANT HILL-MARTINEZ JOINT FACILITIES AGENCY

OBJECTIVES

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

- Whether the Agency 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 Agency's retirement contract with CalPERS were followed.

This review covers the period of January 1, 2007, through December 31, 2009. This review did not include a determination as to whether the Agency is a "public agency," and expresses no opinion or finding with respect to whether the Agency is a public agency or whether its employees are employed by a public agency. In addition, this review did not include a determination as to whether the individuals reported by the Agency were Agency employees or employees of another entity (City of Martinez), and expresses no opinion or finding with respect to whether these individuals were employees of the Agency or another entity.

SUMMARY

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:
  - o Provisions of the Contract and contract amendments between the Agency and CalPERS
  - o Correspondence files maintained at CalPERS
  - o Agency Council minutes and Agency Council resolutions
  - o Agency written labor policies and agreements
  - o Agency salary, wage and benefit agreements including applicable resolutions
  - o Agency personnel records and employee hours worked records
  - o Agency payroll information including Summary Reports and CalPERS 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 Agency ordinances as necessary
  - o Agency ordinances as necessary
  - o Various other documents as necessary

PLEASANT HILL-MARTINEZ JOINT FACILITIES AGENCY

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

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

- ✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.

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

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

- ✓ Reviewed the Agency's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.

- ✓ Reviewed the Agency's affiliated entities to determine if the Agency shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Agency or by the affiliated entity. NOTE: OAS will issue a separate report which addresses this objective.

- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

- ✓ Reviewed health records to determine whether the Agency properly enrolled eligible individuals into CalPERS Health Benefits Program, if contracted for Health Benefits.

PLEASANT HILL-MARTINEZ
JOINT FACILITIES AGENCY

APPENDIX C

AGENCY'S WRITTEN RESPONSE

City of Martinez/Pleasant Hill Martinez JFA

525 Henrietta Street, Martinez CA 94553-2394

November 8, 2012

Margaret Junker, Chief
Office of Audit Services
California Public Employees' Retirement System
P.O. Box 942701
Sacramento, CA 94229-2701

Re: Employer Code 1333, Job #P09-063

Dear Ms. Junker:

In response to your letter of October 9, 2012, please consider this the Pleasant Hill Martinez Joint Facilities Agency's written response to the draft report of the compliance review from May 2010. Upon completion of the onsite audit, Mr. Braeger, the evaluator, outlined and discussed his preliminary findings. At that time, our agency was in agreement with the preliminary findings and sought to implement the recommendations as soon as feasible. We are pleased to report that all recommendations have already been implemented.

We understand that it is the Office of Audit Services' recommendation that the Customer Account Services Division (CASD) work with our agency to assess any impact and/or make adjustments as needed. Please have the CASD contact Valerie Fisher, our Personnel Technician, for assistance in coordinating that effort. Ms. Fisher can be reached at (925) 372-3522.

Sincerely,

Alan Shear
Assistant City Manager