Office of Audit Services

Public Agency Review

City of Ridgecrest

Employer Code: 0604
CalPERS ID: 2542403229
Job Number: P13-024

July 2014

California Public Employees' Retirement System
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July 28, 2014

CalPERS ID: 2542403229
Job Number: P13-024

City of Ridgecrest
Virginia Rachelle McQuiston, Finance Director
100 West California Avenue
Ridgecrest, CA 93555-40547

Dear Ms. McQuiston:

Enclosed is our final report on the results of the public agency review completed for the City of Ridgecrest (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 and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: City Council, City of Ridgecrest
Dennis Speer, City Manager
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Ridgecrest (Agency) complied with applicable sections of the California Government Code, 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.

- Pay schedule did not meet all the requirements of CCR Section 570.5.
- Retroactive salary adjustment was incorrectly reported.
- Special compensation was not reported as required by CCR Section 571.
- Elected officials were not offered membership.

OAS recommends the Agency comply with applicable sections of the California Government Code, 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 20, 1965 to provide retirement benefits for local safety (police) and miscellaneous employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and by 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 Board approved plan for fiscal year 2013-14, 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 employees, records, and pay periods from July 1, 2011 through June 30, 2013. The on-site fieldwork for this review was conducted from December 4, 2013 through December 6, 2013. The review objectives and a summary of the procedures performed are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: Agency's pay schedule did not meet all the requirements of CCR 570.5.

Condition:

The Agency did not have one pay schedule duly approved and adopted by the Agency's governing body in accordance with applicable public meeting laws. In addition, the Agency did not list position titles and payrates for every position such as City Council members, as well as did not indicate effective dates.

Further, the salary schedules included language for salary and cost of living increases as a percentage but did not update the payrate amounts. OAS identified three employees with reported payrates that exceeded the maximum salary amounts listed on the pay schedule. Specifically, the employees received salary increases effective August 15, 2012 in accordance with the employees' labor policies. The payrates for these employees were not listed as amounts on the pay schedule but instead the increase was identified as a percentage. To determine the authorized payrate required multiplication of the percentage increase by the maximum payrate amount listed on the pay schedule. As a result, the payrates exceeded the payrate amounts listed in the Agency's pay schedule.

Only compensation earnable as defined under Government Code Section 20636 and corresponding regulations can be reported to CalPERS and considered in calculating retirement benefits. For purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. According to CCR Section 570.5, a pay schedule, among other things, must:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws.
- Identify the position title for every employee position.
- Show the payrate as a single amount or multiple amounts within a range for each identified position.
- Indicate the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually.
- Be 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.
- Indicate an effective date and date of any revisions.
- Be retained by the employer and available for public inspection for not less than five years.

- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the pay schedule requirements cannot be used to calculate retirement benefits because the amounts do not meet the definition of payrate under Government Code Section 20636(b)(1). There are no exceptions included in Government Code Section 20636(b)(1).

Recommendation:

The Agency should ensure its pay schedule meets all CCR requirements and payrates are reported in accordance with public pay schedules.

The Agency should work with CalPERS Customer Account Services Division (CASD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636(a), § 20636(b)(1), § 20636(d)
CCR: § 570.5

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2: The Agency incorrectly reported retroactive salary adjustment

Condition:

The Agency incorrectly reported retroactive salary adjustments for an employee. Specifically, the Agency approved a cost of living adjustment of 4.3 percent effective August 15, 2012. As a result, the employee's payrate changed from $28.50 to $29.69. However, the Agency incorrectly reported a payrate of $629.69 from August 20, 2012 to December 23, 2012. The Agency indicated this was from a data input error.

Recommendation:

The Agency should ensure retroactive salary adjustments are correctly reported to CalPERS.

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

Criteria:

Government Code: § 20120, § 20121, § 20160, § 20630(b), § 20636(b)(1)

3: The Agency did not report special compensation as required by the CCR.

Condition:

A. The Agency reported the value of the maintenance of the uniforms as special compensation for three employees covered under the United Food Commercial Workers and one employee covered under Mid-Management. However, the labor policies for these groups did not include uniform provisions that indicated the conditions for payment including, but not limited to, eligibility for, and amount of, the allowance. CCR Section 571 requires special compensation items be contained in a written labor policy or agreement and indicate the conditions for the payment of the item, including, but not limited to, eligibility for and amount of the special compensation.

B. The Agency incorrectly reported Holiday Pay for an employee. Specifically, the employee worked in a position that required scheduling staffing without regard to holidays. However, the employee worked and was compensated for working on an unscheduled holiday. As a result, the Agency incorrectly reported over-time as Holiday Pay. Because the employee was compensated for working on an unscheduled holiday, the compensation is not reportable as special compensation.

Reportable special compensation is required to be contained in a written labor policy or agreement, available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, historically consistent with prior payments for the job classification, not paid exclusively in the final compensation period, and not final settlement pay.

Recommendation:

The Agency should ensure special compensation of Uniform Allowance is contained in a written labor policy or agreement as required by the CCR.

The Agency should not report over-time as Holiday Pay and should ensure Holiday Pay is reported correctly in accordance with the CCR.

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

Criteria:

Government Codes: § 20160, § 20635, § 20636

4: The Agency did not provide enrollment to Elected Officials as required.

Condition:

The Agency did not advise Council members of their optional CalPERS membership rights. In addition, the Agency did not have an elected official complete the Optional Membership Form, AESD-59, prior to enrollment in membership. In addition to enrolling the elected official prior to the completion of the required form, the Agency also incorrectly enrolled the elected official as a regular member. The Agency should have required the elected official to complete the Optional Membership Form, submitted the form to CalPERS, and enrolled the individual in CalPERS as an optional member. An elected officer is excluded from membership unless the officer files with the Board an election in writing to become a member. An elected officer includes persons elected to a City Council or County Board of Supervisors.

Recommendation:

The Agency should work with CASD to ensure elected officials are advised of their CalPERS optional membership rights when first elected and file the appropriate election in writing with CalPERS for those who elect to become members.

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

Criteria:

Government Codes**:** § 20160, § 20322

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CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix A. OAS limited the test of transactions to employee samples selected from the Agency's payroll 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 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 Phyllis Miller
PHYLLIS MILLER, CPA, CIA
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Aileen Wong, Auditor
Edward Fama, Auditor
Patrick McCasland, CPA, Auditor

APPENDIX A

OBJECTIVES

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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 CCR.
- 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 July 1, 2011 through June 30, 2013.

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 Board minutes and Agency Board 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 Contribution Detail Transaction History reports
- o Other documents used to specify payrate, special compensation, and benefits for all employees
- o Various other documents as necessary

✓ 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.

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

- ✓ Reviewed the Agency's employment 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.

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

APPENDIX B

AGENCY RESPONSE

CITY OF RIDGECREST

PHONE 760-499-5000
100 WEST CALIFORNIA AVENUE • RIDGECREST, CALIFORNIA 93555-4054

July 16, 2014

CalPERS
Office of Audit Services
Aileen Wong
P. O. Box 942701
Sacramento, CA 94229-2701

Re: Employer Code 0604 CalPERS ID: 2542403229

Dear Ms. Wong:

This letter is in response to the findings listed on the draft report dated June 25, 2014.

Audit finding #1 – Agency's pay schedule did not meet all the requirements of CCR 570.5.

On May 21, 2014 per resolution 14-50 the City of Ridgecrest City Council approved the salary schedule for all approved positions for FY 2013-2014 to comply with the requirements of CCR 570.5. Subsequently on June 18, 2014 another resolution 14-XX was approved correcting one of the salary schedules where a position was inadvertently not listed and updating two others schedules as to the salary amounts to reflect the approved COLA increase per the respective groups' MOUs. The approved salary schedules are now posted on the City's website.

Audit finding #2 – Agency incorrectly reported retroactive salary adjustment

This was due to typographical error when the staff entered the new hourly pay rate for this particular employee. However the City reported the correct amount of retroactive salary paid to the employee. As of this writing we have created the adjustment report to correct this error. The report is currently in suspended status waiting for CalPERS technical support to get back with us to find out how to correct the errors.

Audit finding #3 – Agency did not report special compensation as required by CCR.

The City is currently in labor negotiations with all the bargaining groups. The City Manager and Finance Director have been informed that provisions for uniform maintenance need to be included in the new MOUs of the bargaining groups whose members are currently receiving uniform maintenance.

Audit finding #4 – Agency did not provide enrollment to Elected Officials as required.

We have informed the staff who is responsible for enrolling our Elected Officials to CalPERS that enrollment to CalPERS is optional and form AESD -59 must be completed.

We appreciate you and Mr. Fama for carefully explaining rules and regulations related to the findings and other questions we brought up. The City is more committed to ensuring our policies and procedures and payroll records are in compliance.

Yours truly,

Tess Sloan

Tess Sloan
Assistant Finance Director