

Sacramento Metro Fire District



Public Agency Review



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SACRAMENTO METROPOLITAN FIRE DISTRICT

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RESULTS IN BRIEF

We reviewed the Sacramento Metropolitan Fire District's (District) enrolled individuals, health and retirement contributions, member earnings and required health, retirement and Automated Communications Exchange System (ACES) 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:

- Fair Labor Standards Act (FLSA) compensation was incorrectly reported.
- Continuing education pay was incorrectly reported.
- Holiday compensation was incorrectly reported.
- Payrate was incorrectly reported.
- Work schedule codes were incorrectly reported.
- Temporary employees were not enrolled timely.
- Retirement contributions were not remitted in a timely manner.
- An employee was reported under the incorrect coverage group code.
- Industrial disability retirement determinations were not made timely.
- Unused sick leave was incorrectly certified.
- Required health enrollment forms were not on file and eligibility verification for dependents enrolled in CalPERS Health Benefits Program was not provided.
- Health contributions were not remitted timely.

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

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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 District was established under Health and Safety Code, § 13800, on December 1, 2000, as a result of the merger between the American River and the Sacramento County Fire Protection Districts. The District is governed by a nine member Board of Directors elected by geographic divisions. The District provides fire protection services including fire suppression, fire prevention, inspection, plan checking and public education programs. The District also provides emergency medical services including advance life support, rescue services, and ambulance services. Memoranda of Understanding (MOUs), district resolutions, and 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 August 2, 1983, to provide retirement benefits for local safety and miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as one year for all coverage groups. The District contracted with CalPERS effective September 1, 1983, to provide health benefits to all employees.

SCOPE

As part of the Board approved plan for fiscal year 2008/2009, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the District complied with applicable

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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 December 8, 2008 through December 10, 2008; December 15, 2008 through December 16, 2008; and January 6, 2009.

The review period was limited to the examination of sampled records and processes from October 1, 2005 through September 30, 2008. 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.
- ✓ 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.
- ✓ Reviewed employees and their dependents to determine whether the District properly enrolled eligible individuals into CalPERS Health Benefits Program.

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- ✓ Reviewed health contribution payment information to determine whether the District remitted payments within the required timeframe.
- ✓ Reviewed health contribution payments to determine whether the District contributed the correct employee/employer contribution amounts.
- ✓ Determined whether the District maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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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 the payroll records and compensation reported to CalPERS for a sample of 25 employees over two service periods. The service periods reviewed were November 2006 (11/06-0) and January 2008 (1/08-0).</p> <p>The earnings reported to CalPERS were reconciled with 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>FLSA Compensation Incorrectly Reported</u></p> <p>The District incorrectly reported FLSA premium pay for three sampled shift firefighters. Specifically, in service period 11/06-0, the District paid and reported FLSA premium pay for two sampled firefighters who were not entitled to premium pay compensation. The District did not pay, or report to CalPERS, FLSA premium pay for a third sampled firefighter who was entitled to the premium pay compensation.</p>	<p>The District should report FLSA premium pay for employees eligible for FLSA premium pay compensation.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect 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>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...premium pay for hours worked within the normally scheduled or regular working hours that are in excess of the statutory maximum workweek or work period applicable to the employee under Section 201 et seq. of Title 29 of the United States Code shall be included as special compensation....”</p> <p>California Code of Regulations, § 571(a), states, “The following list exclusively identifies and defines special compensation items for members employed by contracting agency and school employers that must be reported to CalPERS....(5) Fair Labor Standards Act (FLSA) - Compensation paid for normal full-time work schedule including premium pay required by FLSA....Any work performed above [a normal work schedule] would be considered overtime and would not be reported to CalPERS.”</p> <p><u>Continuing Education Pay Incorrectly Reported</u></p> <p>District employees possessing certifications and/or degrees are eligible to receive up to the maximum amount of 10.5 percent base pay according to District MOUs and</p>	<p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p> <p>Subsequent to the issuance of the draft report, the District provided a copy of the District’s</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS. (continued)</p>	<p>resolutions. Moreover, employees may receive additional continuing education incentive pay by completing continuing education courses. Eight sampled employees received continuing education incentive pay in one or both of the sampled service periods. However, the District did not have a program or system in place to evaluate and approve acceptable courses employees may take. The resolutions reviewed stated that continuing education criteria was at the sole discretion of the Fire Chief. Therefore, the continuing education incentive pay is not reportable 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.”</p> <p>California Code of Regulations, § 571(a), states, “The following list exclusively identifies and defines special compensation items...that must be reported to CalPERS...(2) Educational Incentive - Compensation to employees for completing education courses, certificates and degrees which enhance their ability to do their job. A program or system must be in place to evaluate and approve acceptable courses.”</p>	<p>Continuing Education Program Policy that complies with the California Public Employees’ Retirement Law.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS. (continued)</p>	<p>Subsequent to the issuance of the draft report, the District forwarded to CalPERS the District’s Continuing Education Program Policy. The policy outlines the continuing education program and complies with California Code of Regulations, § 571(a).</p> <p><u>Cashed Out Holiday Hours Incorrectly Reported</u></p> <p>The District’s Resolution No. 08-07, Section 7, states, “Safety employees shall receive those holidays which are recognized for all other employees of the District. At the employee’s discretion, the hours...may either be used or sold for cash value.” However, our sample testing revealed that four employees, working in positions that did not require scheduled staffing without regard to holidays, cashed out holiday hours and the compensation was erroneously reported to CalPERS. Holiday compensation is only reportable for employees who are normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays.</p> <p>California Code of Regulations, § 571(a), states, “The following list exclusively identifies and defines special compensation items...that must be reported to CalPERS....(5) Holiday Pay - Additional compensation for</p>	<p>The District should stop reporting holiday pay for all employees not normally required to work during approved holidays.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS. (continued)</p>	<p>employees who are normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays. If these employees are paid over and above their normal monthly rate of pay for approved holidays, the additional compensation is holiday pay and reportable to PERS."</p> <p>This issue has been appealed by the District and is under administrative review.</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, paid and reported. The employees' salaries were properly authorized and reported in accordance with publicly available salary schedules except for the following instance:</p> <p>Sample testing revealed that in January 2007 a management employee received a 12 percent payrate increase while other management employees received a 4 percent payrate increase. Reported payrates should be consistent for District employees in the same classification and should not include increases unavailable to other employees in the same group or class.</p> <p>Government Code, § 20636(e)(2), states, "Increases in</p>	<p>The District should stop reporting payrate increases not available to other employees in the same group or class.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any are needed.</p> <p>A confidential list identifying the individual mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The District may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p>compensation earnable granted to any employee who is not in a group or class shall be limited during the final compensation period applicable to the employees, as well as the two years immediately preceding the final compensation period, to the average increase in compensation earnable during the same period reported by the employer for all employees who are in the same membership classification, except as may otherwise be determined pursuant to regulations adopted by the board that establish reasonable standards for granting exceptions.”</p> <p>The District may request an exception for the "average increase" for the management employee. This requests needs to be sent to and reviewed by the Employer Service Division, per section 572 of the California Code of Regulations. If an exception is not granted by CalPERS, and the management employee retires within the next one to three years, then increases in this employee’s compensation earnable may be reduced per Government Code, § 20636(e)(2).</p> <p>California Code of Regulations, § 572, provides that an employee who is not in a "group or class of employment" within the meaning of the Public Employees' Retirement Law, may request an exception from the "average</p>	

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The District may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p>increase" procedure set forth in § 20636(e). CalPERS will review the full history of payroll reporting for the employee, and all relevant payroll reporting for the membership classification, as to both payrate and special compensation. The employer may request this exception on the employee's behalf.</p> <p>Government Code, § 20636(e)(1), states, "As used in this part, 'group or class of employment' means a number of employees considered together because they share similarities in job duties, work location, collective bargaining unit, or other logical work related grouping. One employee may not be considered a group or class."</p>	
<p>3. The District may not accurately report payroll information to CalPERS.</p>	<p>We reviewed payroll information reported to CalPERS for the 1/08-0 service period for all employees selected for review. Our sample testing revealed that the District correctly reported the payroll reporting elements to CalPERS except for the following instance:</p> <p>The District incorrectly reported work schedule codes for three sampled employees. Specifically, the District reported work schedule code 173 for three employees working an average of 56 hours per week. The correct work schedule code for employees working an average of 56 hour per week is 243.</p>	<p>The District should ensure that correct work schedule codes are reported to CalPERS.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>The CalPERS Actuarial and Employer Services Division Procedure Manual, page P30, describes “work schedule code” as a 3-digit numeric code that is a very important entry as it is used to calculate employer rate and member retirement. It identifies what the employer considers to be full-time employment for employees in the same work group, such as by department or duties, but not by individual employee. Approved work schedule codes range from 34 to 60 hours per week. The work schedule code typically will not vary from report to report.</p> <p>The following formula is used to determine the work schedule code for a full-time monthly paid employee:</p> $\frac{\text{Number of hours per week} \times 52 \text{ weeks per year}}{12 \text{ months per year}}$ $\frac{56 \times 52}{12} = 243 \text{ Work Schedule Code}$	<p>sent to the District and CalPERS ERSD as an appendix to our draft report.</p>
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed payroll information for service periods 11/06-0 and 1/08-0 to determine whether the District submitted payroll information within the required timeframes. Payroll information consists of contributions and CalPERS summary and listing reports. Contributions must be received within 15 days of the close of the pay period and summary and listing reports must be filed</p>	<p>The District should develop procedures to ensure that contributions and payroll reports are submitted timely.</p> <p>The District should work with CalPERS ERSD to assess the</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS. (continued)</p>	<p>within 30 days of the close of pay period. Our testing revealed the following:</p> <p>Service period 11/06-0: Contributions and the summary report were not submitted to CalPERS within the required timeframes. Contributions, due December 15, 2006, were sent in two installments: \$1,500,000.00, paid on December 28, 2006 and \$127,068.71, paid on February 27, 2007. The summary report, due by December 30, 2006, was submitted February 5, 2007.</p> <p>Service period 1/08-0: Contributions were submitted late; however, the summary report was submitted within the required time frame. Retirement contributions, due by February 15, 2008, were paid on February 27, 2008.</p> <p>Additionally, CalPERS ERSD reported the District submitted 15 late payrolls during the review period, including one of the two identified above.</p> <p>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."</p>	<p>impact of this late reporting and determine what adjustment, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS. (continued)</p>	<p>California Code of Regulations, § 565.1(b), states, "For employers reporting on a pre-list method, a complete and orderly payroll report for each pay period shall be filed with the System at its Sacramento office on or before 30 calendar days following the last day of the period to which it refers, or on or before 20 calendar days after mailing, by the System, of the pre-list therefor, whichever is the later."</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 CalPERS Board of Administration and the District Board of Directors excluded from CalPERS membership local police and two groups of employees who were also excluded in the contract between the Sacramento County Fire Protection District and CalPERS. The two groups of excluded employees are: (1) Former employees of the Citrus Heights Fire District who were members of the Sacramento County Employees' Retirement System on February 6, 1984; and (2) Employees of the Rancho Cordova Fire Protection District who were members of the Mutual Benefit Life Pension Plan and who did not waive their rights under that system on March 1, 1990, or April 1, 1994. Our review did not identify any excluded employees employed by the District in the review period.</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><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of three temporary/part-time employees and reviewed the number of hours worked in fiscal years 2006/2007 and 2007/2008 to determine whether they met CalPERS membership eligibility criteria. The employees sampled did not meet the eligibility criteria and were properly excluded from CalPERS membership. However, the District also employed temporary/part-time employees hired through temporary agencies during the review period. We selected five temporary/part-time employees hired through temporary agencies for review and determined three of these employees met CalPERS membership eligibility criteria and were not enrolled. The remaining two employees were enrolled into CalPERS membership but they were not enrolled in a timely manner.</p> <p>Government Code, § 20305 (a), states, in part, “An employee serving on a less than full-time basis is excluded from this system unless...(3) (B) The person works more than...1,000 hours within the fiscal year, in which case, membership shall be effective not later than the first day of the first pay period of the month following the month in which...1,000 hours of service were completed.”</p>	<p>The District should begin enrolling and reporting eligible CalPERS members when membership requirements are met. The District should also implement procedures to review and monitor the number of hours worked in a fiscal year by all temporary/ part-time employees (including volunteer firefighters receiving stipends).</p> <p>The District should work with CalPERS ERSD to assess the impact of this enrollment issue and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and ERSD as an appendix to our draft report.</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><u>Independent Contractor</u></p> <p>We reviewed the District's IRS 1099 Miscellaneous income forms for calendar years 2006 and 2007 in order to identify employees that may be misclassified as independent contractors. The identified individuals were properly classified as independent contractors and correctly excluded from CalPERS membership.</p>	<p>None.</p>
<p>6. The District may unlawfully employ retired annuitants.</p>	<p>We reviewed the hours worked for seven retired annuitants in fiscal years 2006/2007 and 2007/2008. Our sample testing revealed the retired annuitants did not exceed the 960 hour threshold.</p>	<p>None.</p>
<p>7. The District may not appropriately report members under the proper coverage group code.</p>	<p>We reviewed a sample of nine employees to determine whether the District reported employees under the correct coverage group code. Our sample testing revealed that the District correctly reported the sampled employees under the appropriate coverage group code except in the following instance.</p> <p>A safety employee was promoted to a miscellaneous classification on September 18, 2006. However, the District continued to report the employee under the safety coverage group code. Miscellaneous employees should be reported under the miscellaneous coverage group code.</p>	<p>The District should report employees under the correct coverage group code.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individual mentioned in this section of the report has been</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The District may not appropriately report members under the proper coverage group code. (continued)</p>	<p>Government Code, § 20433, defines a local firefighter as, “Any officer or employee of a fire department of a contracting agency, except one whose principal duties are those of a telephone operator, clerk, stenographer, machinist, mechanic, or otherwise and whose functions do not clearly fall within the scope of active firefighting and prevention service, active firefighting and fire training, or active firefighting and hazardous materials, active firefighting and fire or arson investigation...or active firefighting and emergency medical services, even though that employee is...occasionally called upon...to perform duties within the scope of active firefighting, or active firefighting and prevention service, active firefighting and fire training, active firefighting and hazardous materials, active firefighting and fire or arson investigation, or active firefighting and emergency medical services, but not excepting persons employed and qualifying as firefighters of equal or higher rank, irrespective of the duties to which they are assigned.”</p> <p>Government Code, § 20371, states, member classification means either, “(a) Miscellaneous member classification, which includes state miscellaneous members...university members, local miscellaneous members, state industrial members, and school members. (b) Safety member classification, which includes patrol members, state peace</p>	<p>sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The District may not appropriately report members under the proper coverage group code. (continued)</p>	<p>officer/firefighter members, state safety members, and local safety members.”</p> <p>The CalPERS Actuarial and Employer Services Division Procedures Manual, page M27, states, in pertinent part, "CalPERS has had some cases in recent years where an employee was inappropriately retained in 'safety' membership after receiving an appointment to a non-safety position (such as a City Manager). Even if such a member was a formerly in 'safety' membership...safety membership cannot be given where the job duties do not support this status.”</p>	
<p>8. The District may not appropriately process industrial disability retirement determinations and appeals for safety members.</p>	<p>We selected a sample of four employees that applied for industrial disability retirement (IDR) during the review period. The District did not make IDR determinations for three of the sampled employees within the required six-month period, including one retiree who withdrew the IDR application.</p> <p>Government Code, § 21157, states, “The governing body of a contracting agency shall make its determination within six months of the date of the receipt by the contracting agency of the request by the board pursuant to Section 21154 for a determination with respect to a local safety member.”</p>	<p>The District should determine whether local safety members are incapacitated for the performance of duty within six months of the request from CalPERS. The District should work with CalPERS BNSD to assess the impact of these untimely industrial disability retirement determinations and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The District may not appropriately process industrial disability retirement determinations and appeals for safety members. (continued)</p>		<p>individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>
<p>9. The District may not accurately report unused sick leave balances for retiring CalPERS members.</p>	<p>We selected a sample of 16 employees that retired during the review period to determine whether the District accurately certified the individuals' unused sick leave balances for additional service credit. The unused sick leave balances for the sampled employees were properly computed using a divisor of eight to convert hours to days; however, we found the District certified an incorrect amount of unused sick leave for two employees. Specifically, the District multiplied the two employees' accumulated balance of unused sick hours by a factor of 1.4 and reported the increased sick time to CalPERS. The District should have multiplied, by a factor of 1.4, only that portion of the employees' accumulated balance of unused sick hours that were accrued during the normal course of employment while on 56-hour workweek status.</p> <p>District Administrative staff explained both employees were originally hired to work 56 hours per week and later changed to a 40-hour per week status. At the time of the</p>	<p>The District should review the unused sick leave balances reported to CalPERS for members retiring during the review period to determine whether their unused sick leave balance was properly reported to CalPERS.</p> <p>The District should work with CalPERS BNSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The District may not accurately report unused sick leave balances for retiring CalPERS members. (continued)</p>	<p>change, their total accumulated unused sick hours were reduced by a factor of 1.4 to bring them to a 40-hour per week status. Then, at the time of retirement, and after a cash out payment for a percentage of their sick leave, the remaining hours were multiplied by a factor of 1.4 to return them to the 56 hour workweek status, their status when first hired.</p> <p>CalPERS' records show the two employees worked for the District for more than 30 years in a safety position and both reached the maximum retirement allowable under the District's 3% at 50 retirement formula. As a result, the employees received no additional service credit for their unused sick time, and the erroneous certification had no effect on their retirement allowance.</p> <p>The optional provision of Government Code, § 20965, allows for members to be credited with additional service credit for each day of unused sick leave accrued by the member during the normal course of employment. To ensure compliance with the government code the District should only report the accumulated unused sick time earned by employees during the normal course of employment.</p> <p>Government Code, § 20965, states, "A local</p>	<p>BNSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The District may not accurately report unused sick leave balances for retiring CalPERS members. (continued)</p>	<p>miscellaneous member and local safety member, whose effective date of retirement is within four months of separation from employment with the employer which granted the sick leave credit, shall be credited at his or her retirement with 0.004 years of service credit for each unused day of sick leave certified to the board by his or her employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member's retirement benefit. Reports of unused days of sick leave shall be subject to audit and retirement benefits may be adjusted where improper reporting is found."</p>	
<p>10. The District may not properly enroll eligible employees and their dependents in health benefits.</p>	<p>We reviewed a sample of 11 employees and their dependents to determine whether the District accurately enrolled members and their eligible dependents in CalPERS Health Benefits Program and whether all documentation was on file and correctly completed. Our sample testing revealed that the District did not have the required Declaration of Health Coverage form (HB-12A) and/or Health Benefit Plan Enrollment form (HBD-12) on file for ten sampled employees and did not provide verification of dependent eligibility for eight spouses and fourteen dependents enrolled under nine members' health benefits.</p>	<p>The District must ensure the proper member and dependent enrollment documentation is on file at the District within 60days from the date of our final report.</p> <p>Please send an email to: <i>HBB_Audit_Services@Calpers.ca.gov</i> once the requested documentation is on file. The CalPERS HBB may be contacted at (916) 795-3836,</p>

SACRAMENTO METROPOLITAN FIRE DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>10. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>Government Code, § 20085, states, in part, “(a) It is unlawful for a person to do any of the following: (1) Make, or cause to be made, any knowingly false material statement or material representation, to knowingly fail to disclose a material fact, or to otherwise provide false information with the intent to use it, or allow it to be used, to obtain, receive, continue, increase, deny, or reduce any benefit administered by this system. (b) For purposes of this section, ‘statement’ includes, but is not limited to, any oral or written application for benefits, report of family relationship..., or continued eligibility for a benefit or the amount of a benefit administered by this system. (c) A person who violates any provision of this section is punishable by imprisonment in a county jail not to exceed one year, or by a fine of not more than five thousand dollars (\$5,000), or by both that imprisonment and fine. (d) A person violating any provision of this section may be required by the court in a criminal action to make restitution to this system... for the amount of the benefit unlawfully obtained.”</p> <p>Government Code, § 22775, defines a family member as, “An employee’s or annuitant’s spouse or domestic partner and any unmarried child, including an adopted child, a stepchild, or recognized natural child.”</p>	<p>with any questions.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS HBB as an appendix to our draft report.</p>

SACRAMENTO METROPOLITAN FIRE DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>10. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>California Code of Regulations, § 599.500, states “(f) ‘Enroll’ means to file with the employing office a properly completed Health Benefits Enrollment Form electing to be enrolled in a health benefits plan.”</p> <p>California Code of Regulations, § 599.500, states, “(k) ‘Eligible’ means eligible under the law and this subchapter to be enrolled...(n) A child attains the status of ‘family member’ at birth...‘family member’ includes any unmarried child who is economically dependent upon the employee or annuitant, when there exists a parent-child relationship with the employee or annuitant.”</p> <p>California Code of Regulations § 599.502(b)(1), states, “An eligible employee shall enroll or register not to enroll no later than his or her 60th calendar day of employment or reemployment following a break in service of at least one full monthly pay period.”</p> <p>The HB-12A provides information on enrollment options, consequences for non-enrollment and is to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA). Effective January 1, 1998, each employee must sign the HB-12A when they are first eligible to enroll or when they make any change to their health coverage. This includes open enrollment changes,</p>	

SACRAMENTO METROPOLITAN FIRE DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>10. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>changing health plans when moving, adding or deleting a dependent, or canceling health benefits. The employer must provide the HB-12A at the time the employee requests enrollment or with the HBD-12. The employer also must provide the employee a copy of the signed form and keep the original in the employee's file.</p>	
<p>11. The District may not contribute the appropriate health contribution amounts for active employees.</p>	<p>We reviewed the health contributions reported for January 2008. We determined that the District contributed the appropriate health contribution amount as part of the sampled members' total monthly premium amount.</p>	<p>None.</p>
<p>12. The District may not remit health contributions within the required timeframe.</p>	<p>We reviewed the monthly invoices for July 2006, November 2006, and January 2008 to determine whether the District remitted the health contribution amounts within the appropriate timeframe. The District remitted the November 2006 and the January 2008 health contributions timely; however, the July 2006 contribution was eight days late.</p> <p>Government Code, § 22899(a), states, in part, "The contributions required of a contracting agency, along with contributions withheld from salaries of its employees, shall be forwarded monthly, no later than the 10th day of the month for which the contribution is due."</p>	<p>The District should develop procedures to ensure health contributions are submitted to CalPERS in a timely manner.</p>

SACRAMENTO METROPOLITAN FIRE DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
13. The District may not maintain appropriate ACES security procedures.	We reviewed the security procedures for the District's ACES users to determine whether reasonable security precautions were maintained and whether the required security documents were properly completed and filed for ACES users. We found that the ACES users had the appropriate Employer User Security Agreements completed and filed at the District.	None.

SACRAMENTO METROPOLITAN FIRE DISTRICT

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,

MARGARET JUNKER, CIA, CPA
Interim Chief Auditor,
Office of Audit Services

Date: July 2010

Staff: Michael Dutil, CIA, Senior Manager

Jacqueline Conway, CIA, CPA, CGFM Manager

Karen Harlan, Auditor

Jose Martinez, Auditor

APPENDIX

AGENCY'S WRITTEN RESPONSE



Sacramento Metropolitan Fire District

2101 Hurley Way • Sacramento, California 95825-3208 • Phone (916) 566-4000 • Fax (916) 566-4200

WILLIAM B. SPONABLE
Fire Chief

June 8, 2010

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

Dear Ms. Junker:

The Sacramento Metropolitan Fire District (SMFD) is in receipt of the draft report issued by CalPERS as a result of the recently completed compliance review. SMFD appreciates the opportunity to provide a written response to the draft report. We have included a response to each of the risks that included a recommendation in the draft report. The SMFD responses are in the same order as listed in the draft report.

RISK 1—THE DISTRICT MAY NOT ACCURATELY REPORT COMPENSATION TO CALPERS

CalPERS Finding—The draft report indicated that FLSA compensation has been incorrectly reported for 3 employees included in the review.

SMFD Response—SMFD concurs with CalPERS' finding regarding FLSA compensation reporting and has established a process to better monitor the reporting of FLSA compensation. SMFD will review its reporting of FLSA for the last 3 years and work with CalPERS to make appropriate reporting adjustments.

CalPERS Finding—The draft report indicated that continuing education pay was incorrectly reported because SMFD did not have a program or system in place to evaluate and approve acceptable courses employees may take. CalPERS also indicated that continuing education criteria was at the sole discretion of the Fire Chief.

SMFD Response—SMFD disagrees with this finding for a couple reasons. First, while the Fire Chief does have sole discretion for granting continuing education pay, as he does with numerous other items identified in various MOU's and Resolutions, SMFD does have a program/system in place which the Fire Chief has utilized when approving continuing education pay. Understanding the concerns CalPERS has identified, SMFD has fully documented the criteria the Fire Chief uses when approving continuing education pay. That criteria includes the following:

1. Each activity is planned in response to educational needs which have been identified for a target audience;
2. Each activity has clear and concise written statements of intended learning outcomes;
3. Qualified instructional personnel are involved in planning and conducting each activity;
4. Content and instructional methods are appropriate for the intended learning outcomes;
5. Participants shall be prepared to demonstrate their attainment of the learning outcomes to their chain of command. This may be a presentation to the team or a brief summary report.

Secondly, continuing education pay has been included in various Memorandum of Understandings (MOU's), Resolutions adopted by the SMFD Board of Directors and reported to CalPERS for many years. In fact, continuing education was included in the MOU's and Resolutions for American River Fire District in the early and mid 1990's when CalPERS did a complete audit of the District's records. At that time there was no finding by CalPERS so the District continued its normal practice around reporting continuing education pay and paying the member and employer contributions on continuing education pay. We believe this risk is unjustified and should be removed from the final report. Recognizing CalPERS' current concerns, SMFD is more than happy to provide full disclosure of the continuing education program language.

CalPERS Finding—The draft report indicated cashed-out holiday hours were incorrectly reported.

SMFD Response—SMFD disagrees with this finding and is puzzled as to why CalPERS has initiated action to reduce the benefits of SMFD's retirees before we were given a chance to respond to the finding or a final report was issued. Not to sound like a broken record, but again, this is exactly the practice we had in place when CalPERS audited us in the 1990's. This is also the same practice utilized around the state by other fire districts. SMFD strongly believes we have been in compliance with the statutes and as a result, have submitted appeals on behalf of our retirees. SMFD is hopeful this can be resolved quickly and not through the Administrative Remedy Process.

We will not reiterate what the SMFD Counsel submitted in our appeals for our retirees but do want to emphasize a few points. First, suppression personnel that are temporarily assigned to day shift are not relieved of their responsibility to be available to work on holidays. Perhaps our MOU language wasn't as clear as it could be on this point but over the years there have been numerous occasions where a day shift suppression employee has been required to work on holidays. In addition, a day shift assignment may last as little as 30 days at which time the employee returns to full time shift duty. Secondly, it has never been the intent of SMFD to negatively impact the compensation of an employee who agrees to be temporarily assigned to day shift which is usually a benefit to the employer and taxpayers the District serves. Lastly, on a

prospective basis and in cooperation with CalPERS, we have been able to implement "Fire Staff Premium Pay" which will put this issue to rest. This demonstrates that had this issue been identified to us during the last audit, we would have made the necessary changes and our retirees would not be facing potential reductions in their pension benefits. Recognizing that we have found a prospective fix and there has been lack of clarity around the state on this issue, SMFD requests that CalPERS allow the holiday pay as reported through 2008 and not negatively impact the retirees of SMFD. Effective January 1, 2009, the Fire Staff Premium Pay was implemented.

On a side note, knowing that this is an issue state wide, we hope that CalPERS will share through a CalPERS circular letter their concerns about holiday pay for day shift employees and also educate fire districts on Fire Staff Premium Pay.

RISK 2—THE DISTRICT MAY NOT REPORT PAYRATES IN ACCORDANCE WITH PUBLICLY AVAILABLE SALARY SCHEDULES

CalPERS Finding—The draft report indicates in January 2007 one management employee received a 12% payrate increase while other management employees received a 4% payrate increase. It also stated that reported payrates should be consistent for District employees in the same classification and should not include increases unavailable to other employees in the same group or class.

SMFD Response—SMFD agrees that there was a difference in payrate increase for the fire chief position in 2007 but does not agree with the percentage difference. Also, this information was reported in accordance with publicly available salary schedules and the fire chief contract adopted by the SMFD Board of Directors in 2000 which was when American River Fire District and Sacramento County Fire District merged into SMFD. The fire chief in the position in 2007 retired on December 31, 2009. Under the contract established in 2000 by the Board of Directors, the fire chief receives an increase in pay equal to the percentage increase in property tax revenues each year. This has been in the fire chief contract since the merger of Sacramento County Fire District and American River Fire District. This formula ensures proper compensation for the fire chief should additional mergers take place. Over the years several mergers have taken place including Sacramento County Fire District, American River Fire District, North Highlands Fire District, Citrus Heights Fire District, Rancho Cordova Fire District and Fair Oaks Fire District. While the growth in number of senior management positions is commensurate with the increase in service area, there is only one fire chief who is required to take on additional responsibilities. Attachment 1 shows the respective increases in payrates for the last 10 years for the fire chief and senior management positions. Senior management is the closest related group to the fire chief position and includes deputy chiefs and assistant chiefs. The average annual increase for the fire chief position over the last 10 years has been 5.73% and for senior management the average annual increase has been 4.92%. For 2008 the fire chief declined approximately 8% in additional payrate increase because of the downturn in the economy and the fact that his fellow employees were receiving 4% for the year. Clearly this is not an example of pension spiking and based on the history for the fire chief position, SMFD believes payroll information reported is correct.

RISK 3—THE DISTRICT MAY NOT ACCURATELY REPORT PAYROLL INFORMATION TO CALPERS

CalPERS Finding—The draft report indicates SMFD reported work schedule codes of 173 that should have been 243.

SMFD Response—SMFD concurs with the finding. System limitations have allowed us to report only one work schedule code. Effective with the May 2010 payroll period this limitation has been corrected.

RISK 4—THE DISTRICT MAY FAIL TO OR DID NOT SUBMIT PAYROLL IN A TIMELY MANNER TO CALPERS

CalPERS Finding—The draft report indicates that payroll information including contributions, summary report and listings were not submitted timely.

SMFD Response—SMFD concurs with the finding. Submission of payroll information is coordinated with several offices including the County of Sacramento. Processes have been put in place to help ensure timely submission of payroll information. Please note, in times of economic downturn the June contributions and reports will be delayed by new fiscal year budget implications.

RISK 5—THE DISTRICT MAY NOT ENROLL ALL ELIGIBLE EMPLOYEES INTO CALPERS MEMBERSHIP

CalPERS Finding—The draft report indicates the temporary/part-time employees hired through temporary agencies were not enrolled in CalPERS timely.

SMFD Response—This has been a confusing area for a long time. Depending upon who SMFD talks to at CalPERS the answer is different. SMFD has an hourly exclusion but has recently been told it is no longer valid. In fact, when we explained that to the CalPERS auditor, Jose Martinez, he went back to CalPERS and called us and said yes you have an exclusion. He then called back and said we do not have an exclusion. SMFD would like to get some clarity on this issue. How can our exclusion be revoked without SMFD agreeing?

RISK 7—THE DISTRICT MAY NOT APPROPRIATELY REPORT MEMBERS UNDER THE PROPER COVERAGE GROUP CODE

CalPERS Finding—The draft report indicates a safety employee was promoted to a miscellaneous classification on September 18, 2006. However the District continued to report the employee under the safety coverage group code.

SMFD Response—SMFD disagrees with the finding. The individual referenced was not promoted to a miscellaneous position, he was promoted to a different safety position. Our review indicates that the legislative intent of this statute was to prevent individuals from retaining safety status when they truly left their safety jobs in either fire departments or police departments, specifically when a fire chief or police chief left their safety job and became a city manager and wanted to retain safety status. In this specific case, the individual was promoted from fire captain to chief financial officer in the fire department and was available to perform safety duties. In addition, Government Code section 20433 states in the last sentence, "but not excepting persons employed and qualifying as firefighters of equal or higher rank, irrespective of the duties to which they are assigned." This person has been a firefighter for approximately 34 years and in December 2009, this individual was promoted to fire chief of SMFD. This finding should be removed from the report. In fact, if this person was made a miscellaneous member for the period identified, his benefit would be higher as he would achieve 90% as a safety member and approximately 7%+ as a miscellaneous member. This information was provided to, Jose Martinez, in December 2008.

RISK 8—THE DISTRICT MAY NOT APPROPRIATELY PROCESS INDUSTRIAL DISABILITY RETIREMENT DETERMINATIONS AND APPEALS FOR SAFETY MEMBERS

CalPERS Finding—The draft report indicates that SMFD did not make IDR determinations for 3 employees within the required six month period.

SMFD Response—SMFD concurs with the finding. This decision process is touched by several in the organization and is usually connected to workers compensation issues. We are reviewing our procedures to determine where the process can be streamlined.

RISK 9—THE DISTRICT MAY NOT ACCURATELY REPORT UNUSED SICK LEAVE BALANCES FOR RETIRING CALPERS MEMBERS

CalPERS Finding—The draft report indicates the District certified an incorrect amount of unused sick leave for two employees. Specifically the district multiplied sick hours by a factor of 1.4 and reported the increased sick time to CalPERS.

SMFD Response—SMFD disagrees with this finding even though both employees reached maximum retirement allowance without the sick leave service credit. When an employee is hired as a 56 hour per week employee they earn 1.4 times the amount of sick leave of a 40 hour per week employee. The 1.4 factor is the ratio of 56 hours to 40 hours per week. When an employee transfers from a 56 hour work week to a 40 hour work week, SMFD reduces the individual's sick leave hours by a factor of 1.4. This is because in a 40 hour work week position, only 40 hours of sick leave can be used in a week. Once the person returns to a 56 hour work week schedule, the remaining sick leave hours are then multiplied by a factor of 1.4. The hours of sick leave service credit reported to CalPERS are exactly what that employee has earned throughout their

career. Again, this is one of those practices used throughout the state by other fire districts.

RISK 10—THE DISTRICT MAY NOT PROPERLY ENROLL ELIGIBLE EMPLOYEES AND THEIR DEPENDENTS IN HEALTH BENEFITS

CalPERS Finding—The draft report indicates the District did not have the required Declaration of Health Coverage form (HB-12A) and/or Health Benefit Plan Enrollment form (HBD-12) on file for the sampled employees.

SMFD Response—SMFD concurs with this finding and is implementing procedures to ensure compliance. In addition, information provided by CalPERS regarding the HBD-12A has not been clear. SMFD will work with the Health Benefits Branch to better understand the requirements.

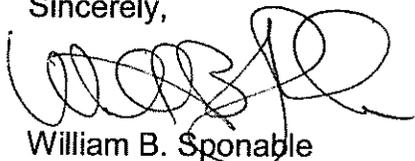
RISK 12—THE DISTRICT MAY NOT REMIT HEALTH CONTRIBUTIONS WITHIN THE REQUIRED TIMEFRAME

CalPERS Finding—July 2006 health contributions were eight days late.

SMFD Response—SMFD concurs with the finding. SMFD works with the County of Sacramento to ensure timely payment of health contributions. However, due to new budget year impacts, contributions due at the beginning of a fiscal year are sometimes delayed because of issues beyond the control of SMFD. SMFD will continue to work with the County of Sacramento to ensure timely submittal of health contributions.

In summary, since American River Fire District and Sacramento County Fire District merged into SMFD in 2000, SMFD has focused on reporting accurately and timely to CalPERS. The recently completed compliance review helped SMFD identify a few issues and we look forward to working with CalPERS in resolving those issues. While the review took longer than we anticipated, we would like to thank CalPERS and in particular, Jose Martinez for the efforts put forth in this compliance review.

Sincerely,



William B. Sponable
Fire Chief

Attachment

Attachment 1

Pay Rate Changes 2001 through 2010

DATE	FIRE CHIEF	SR. MGMT
1/2001	2.0%	2.0%
1/2002	4.0%	4.0%
1/2003	4.0%	4.0%
1/2004	8.5%	9.0%
1/2005	11.0%	9.0%
1/2006	11.8%	9.0%
1/2007	12.0%	8.2%
1/2008	4.0%	4.0%
1/2009	0	0
1/2010	0	0
Totals	57.3%	49.2%
Average 10 year	5.73%	4.92%
Average 07 thru 09	5.3%	4.1%