Office of Audit Services

Public Agency Review

Sacramento Metropolitan Air Quality Management District

CalPERS ID: 5618901326
Job Number: P14-092

January 2016

California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

January 29, 2016

CalPERS ID: 5618901326
Job Number: P14-092

Betty Becker, HR Officer
Sacramento Metropolitan Air Quality Management District
777 12th Street, 3rd Floor
Sacramento, CA 95814

Dear Ms. Becker:

Enclosed is our final report on the results of the public agency review completed for the Sacramento Metropolitan Air Quality Management District (Agency). Your written response is included as an appendix to the report. In accordance with our resolution policy, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your Agency. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Sacramento Metropolitan Air Quality Management District
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Chief, EAMD, CalPERS
Carene Carolan, Chief, MAMD, CalPERS

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

TABLE OF CONTENTS

SUBJECT PAGE

Results in Brief 1

Scope 1

Office of Audit Services Review Results 2

- 1: Pay Schedule 2
- 2: Payrate 4
- 3: Retroactive Adjustments 5
- 4: Member Contributions 7
- 5: Retired Annuitant 8
- 6: Reciprocity Self-Certification 9
- Observation: Census Data Reporting 10

Conclusion 11

Objectives ..... Appendix A

Agency's Written Response ..... Appendix B

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

RESULTS IN BRIEF

The objective of our review was to determine whether the Sacramento Metropolitan Air Quality Management District (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), California Code of Regulations (CCR) and its contract with the California Public Employees' Retirement System (CalPERS).

The Office of Audit Services (OAS) noted the following findings during the review. Details are noted in the Results section beginning on page three of this report.

- Pay schedule did not meet all of the requirements of the Government Code and CCR.
- Payrates and earnings were incorrectly reported.
- Retroactive salary adjustments were incorrectly reported.
- Member contributions were incorrectly reported.
- Retired annuitant's information was not reported as required.
- Member reciprocal self-certification was not maintained.
- Observation: Census data reporting errors.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, CCR and its contract with CalPERS. We also recommend the Agency work with the appropriate CalPERS divisions to resolve issues identified in this report.

SCOPE

The Agency contracted with CalPERS effective July 1, 1996 to provide retirement benefits for local 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 CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from July 1, 2011 through June 30, 2014. The review objectives and methodology are listed in Appendix A.

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedule for the Fiscal Year 2013-14 did not meet all the requirements of the Government Code and CCR. The pay schedule did not indicate an effective date and did not list all position titles for every employee position. Specifically, the Agency's pay schedule omitted the payrates and position titles for the District Counsel and Air Pollution Officer.

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

Pay amounts reported for positions that do not comply with the payrate definition and 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). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

Recommendation:

The Agency should ensure its pay schedule meets all of the Government Code and CCR requirements.

The Agency should work with CalPERS Employer Account Management Division (EAMD) to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636
CCR: § 570.5

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

2: The Agency reported incorrect payrate and earnings.

Condition:

The Agency reported incorrect payrate and earnings for an Air Quality Instrument Specialist in multiple pay periods. Specifically, the Agency approved a payrate increase on July 2, 2013 from $35.25 to $37.01. However, the Agency continued reporting an hourly payrate of $35.25 and regular earnings of $2,820.00 for pay periods ended July 13, 2013, July 27, 2013, and August 10, 2013.

Payrate and earnings are important factors in computing a member's retirement allowance because service credit and final compensation are directly related to these factors.

Recommendation:

The Agency should ensure the correct payrate and earnings are reported to CalPERS.

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

Criteria:

Government Codes: § 20160, § 20630, § 20636

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

3: The Agency incorrectly reported retroactive salary adjustments.

Condition:

A. The Agency incorrectly reported retroactive salary adjustments in lump sum amounts instead of for the period in which the compensation was earned.

   - The Agency incorrectly reported a retroactive salary adjustment as a lump sum amount of $710.65 for the period June 2 through June 15, 2013. The employee, an Air Quality Instrument Specialist, received the pay increase on August 23, 2013 retroactive to June 2, 2013. The Agency should have reported the salary adjustment for the period earned, June 2 through August 23, 2013.

   - The Agency also incorrectly reported a retroactive salary adjustment in a lump sum amount of $2,290.58 for the period August 1 through August 10, 2013. The employee, an Air Pollution Control Officer, received a five percent raise on November 21, 2013 retroactive to August 1, 2013. The Agency should have reported the salary adjustment for the period earned, August 1 through November 21, 2013.

B. In addition, the Agency reported non-reportable compensation as regular earnings with the retroactive salary adjustment for the employee discussed in finding 3A. Specifically, the Agency included $50.00 for expense allowance in the regular earnings when it reported the retroactive salary adjustment. Expense allowance does not qualify as compensation earnable per Government Code Section 20636 and CCR Section 571.

Recommendation:

The Agency should ensure earnings are reported in the pay period in which it was earned.

The Agency should stop reporting expense allowance as part of regular earnings since the pay does not qualify as compensation earnable per Government Code Section 20636 and CCR Section 571.

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

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

Criteria:

Government Codes: § 20160, § 20630, § 20636
CCR: § 571

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

4: The Agency incorrectly reported member contributions.

Condition:

Although the Agency paid one percent of the normal contributions for all classic employees subject to retirement contribution withholdings, the Agency did not report the entire one percent as Employer Paid Member Contributions (EPMC). A portion of the EPMC was reported as member paid contributions. For example, the Agency paid one percent or $15.06 EPMC for an Associate Air Quality Engineer. However, the Agency reported $1.09 as EPMC. The remaining $13.97 was reported as member paid contributions.

Recommendation:

The Agency should ensure member contributions are reported correctly.

The Agency should work with EAMD to assess the impact of this incorrect reporting and make any adjustments, if necessary, to any impacted retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20691
CCR: § 569

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

5: The Agency did not enroll and report retired annuitant information as required.

Condition:

The Agency did not enroll and report the hours worked and earnings paid to a retired annuitant in my|CalPERS to allow for monitoring the 960-hour limit. Specifically, the Agency hired a retired annuitant on September 1, 2004, but did not enroll and report the retired annuitant information in my|CalPERS. Although the retired annuitant did not exceed 960 hours in a fiscal year, the Agency should have enrolled the retiree into CalPERS and reported the hours and compensation in my|CalPERS as required.

Recommendation:

The Agency should report the retired annuitant's information in my|CalPERS.

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

Criteria:

Government Codes: § 20120, § 20121, § 20122, § 21220, § 21224

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

6: The Agency did not maintain the required member reciprocal self-certification.

Condition:

The Agency did not maintain the required member reciprocal self-certification for an employee hired after January 1, 2013. CCR Section 579.3 requires individuals to self-certify in writing as to whether he or she is also a member of another public retirement system and is eligible for reciprocity. Agencies are required to retain the retirement and benefit-related information provided by the newly-hired individual.

Recommendation:

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains the information.

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

Criteria:

Government Codes: § 20160, § 7522.02, § 7522.04
CCR: § 579.3

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

Observation: The Agency's records do not agree with CalPERS information.

OAS reviewed active member census data used to calculate pension liability for the financial reporting purpose under the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans*. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active, inactive, or retired), class of employee, and eligible compensation.

OAS identified discrepancies between the Agency's records and my|CalPERS database. Specifically, four employees had separated from the Agency prior to June 30, 2014. However, the employees still had active statuses in the my|CalPERS database. The Agency should report separation dates in my|CalPERS when employees separate from the Agency.

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives outlined in Appendix A. The procedures performed provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract except as noted.

The findings and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared. This report does not constitute a final determination in regard to the findings noted within the report. The appropriate CalPERS divisions will notify the Agency of the final determinations on the report findings and provide appeal rights, if applicable, at that time. All appeals must be made to the appropriate CalPERS division by filing a written appeal with CalPERS, in Sacramento, within 30 days of the date of the mailing of the determination letter, in accordance with Government Code Section 20134 and Sections 555-555.4, Title 2, of California Code of Regulations.

Respectfully submitted,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, CPA, MBA
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Alan Feblowitz, CFE, Senior Manager
Jose Martinez, Lead Auditor
Dennis Szeto, Auditor

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

APPENDIX A

OBJECTIVES

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

OBJECTIVES

The objectives of this review were limited to determine whether the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting and enrollment procedures prescribed in the Agency's retirement contract with CalPERS.

Effective January 1, 2013, new enrollments are checked against the PEPRA definition of "new member," regardless of whether the enrollment is for a first time CalPERS member or an existing member. All members that do not fit within the definition of a new member are referred to as "classic members."

This review did not include an assessment 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.

METHODOLOGY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the Agency's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ Reviewed:
  - 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 time records
  - o Agency payroll information including Contribution Detail Transaction History reports
  - o Documents related to employee payrate, special compensation, and benefits
  - o Various other relevant documents

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

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

- ✓ 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 meetings laws.

- ✓ Reviewed CalPERS 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 employment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when unlawful employment occurs.

- ✓ 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 entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.

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

- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

APPENDIX B

AGENCY'S WRITTEN RESPONSE

SACRAMENTO METROPOLITAN
AIR QUALITY
MANAGEMENT DISTRICT

Larry Greene
AIR POLLUTION CONTROL OFFICER

Beliz Chappuie, Chief
Office of Audit Services
400 R Street
Sacramento, CA 95811

December 23, 2015

Dear Ms. Chappuie:

Please find the District's response to items 1-6 as well as unnumbered item marked "Observation" from the November 25, 2015 draft report resulting from CalPERS' compliance review of the Sacramento Metropolitan Air Quality Management District.

1. Pay Schedule

The District has addressed this item. A publicly available pay schedule was adopted by the District's governing body on May 28, 2015 by way of Resolution 2015-019. The schedule does indicate an effective date, reflects all positions including District Counsel and Air Pollution Control Officer and meets other listed criteria. A new pay schedule will be adopted at least annually and will be available at the District's offices and on the District's website at: http://www.airquality.org.

2. Pay Rate Increases

District staff will review timeliness of approved rate increases and work with EAMD staff to make corrections if needed; and will ensure administrative procedure includes a check and balance mechanism to eliminate this issue going forward.

3. Retroactive Adjustments

A. District staff will review and work with EAMD staff to correct prior retroactive adjustments and enter any future retroactive adjustment for the pay period(s) earned instead of as a lump sum.
B. District staff will not include expense allowance when reporting earnings to CalPERS (expense allowance only applicable to one employee).

4. Member Contributions

District staff will request EAMD assistance to ensure the EPMC and the corresponding special compensation element are properly reported in the MyCalPERS system.

777 12th Street, 3rd Floor ▮ Sacramento, CA 95814-1908
916/874-4800 ▮ 916/874-4899 fax
www.airquality.org

5. Retired Annuitant not enrolled

District staff will work with EAMD staff to ensure that the correct information is recorded in myCalPERS system. This individual is no longer working as a retired annuitant.

6. Reciprocity Self-Certification

District staff will ensure the required certification for employees hired on or after January 1, 2013 are on file. A step in the onboarding process has been implemented to ensure this is not an issue going forward.

Observations

Four separated employees were still marked as "active" in myCalPERS. District staff have identified the correct separation date for each employee and will make the necessary updates.

Please feel free to contact me with any questions, comments or suggestions

Sincerely,

[redacted] Original signed by Betty Becker

Betty Becker
Human Resources Officer