

Stanislaus Consolidated Fire Protection District



Public Agency Review



CalPERS

Office of Audit Services

Employer Code: 1662
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STANISLAUS CONSOLIDATED FIRE PROTECTION DISTRICT

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RESULTS IN BRIEF

We reviewed the Stanislaus Consolidated Fire Protection District's (District) enrolled individuals, retirement contributions, member earnings, 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:

- Holiday compensation was incorrectly reported.
- Work schedule codes were incorrectly reported.
- Retirement contributions and summary reports were not remitted in a timely manner.
- Unused sick leave was not correctly certified.
- Required ACES user security agreements were not maintained.

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 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.

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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 formed in March 3, 1995, by the reorganization of the Riverbank, Waterford-Hickman and the Empire Fire Protection Districts. The District is governed by a Board of Directors appointed by Stanislaus County. The District provides direct fire protection and related service within its boundaries and provides coordinated non-emergency fire services support to all other fire protection districts throughout the County. Memoranda of Understanding (MOUs) 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 April 7, 1995, to provide retirement benefits for local safety (firefighters) and miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's retirement contract with CalPERS. The objective of this review was limited to the determination that the District complied with applicable 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 February 22, 2010, through February 24, 2010.

The review period was limited to the examination of sampled records and processes from January 1, 2007, through December 31, 2009. 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.

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- ✓ 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.
- ✓ 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 payroll records and compensation reported to CalPERS for a sample of 13 employees over two service periods. The service periods reviewed were the second service period of November 2008 (11/08-4) and the first service period of November 2009 (11/09-3).</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 in one instance.</p> <p>The District's Administrative Staff MOU, Section 7.2, states, "the employee has the option to cash out up to 231 hours of vacation or holiday time per fiscal year paid at the straight time." Our sample testing revealed that one employee, working in a position that did not require scheduled staffing without regard for holidays, cashed out 40 holiday hours and the compensation was erroneously reported to CalPERS. Holiday compensation is only reportable for employees normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays.</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 individual mentioned in this 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>California Code of Regulations, § 571, states, “(a) The following list exclusively identifies and defines special compensation items...that must be reported to CalPERS... (5) Holiday pay - Additional compensation 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. 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>2. The District may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS in service period 11/09-3 for 13 employees. We reconciled the payrates to the District’s public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. The employees’ salaries were properly authorized, paid, and reported in accordance with publicly available salary schedules.</p>	<p>None.</p>
<p>3. The District may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS for 13 employees in service periods 11/08-4 and 11/09-3 to determine whether the District correctly reported work schedule codes, pay codes and service period types to CalPERS. The District correctly reported the payroll information to CalPERS except for work schedule codes, which were incorrectly reported for 12 sampled</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</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>employees. Specifically, our sample testing revealed that in service period 11/08-4, the District incorrectly reported work schedules codes 173 or 253 for employees normally working a 56-hour work week, and incorrectly reported work schedule code 253 for an employee normally working a 40-hour work week. The District should have reported work schedule code 243 for employees working a 56-hour work week and work schedule code 173 for employees working a 40-hour work week.</p> <p>CalPERS Employer Services Division Procedures Manual, page 99, defines the work schedule code as, "a 3-digit numeric code, used in calculating both employer rate and the member's retirement benefit. It identifies what you, the employer, consider 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> $\frac{\text{Number of hours per week} \times 52 \text{ weeks per year}}{12 \text{ months per year}}$	<p>and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this report has been sent to the District and CalPERS as an appendix to our draft report.</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.</p>	<p>We reviewed payroll information for service periods 11/08-4 and 11/09-3 to determine whether the District submitted payroll information within the required timeframes. Payroll information consists of contribution payments and CalPERS summary and listing reports. Contribution payments must be received within 15 days of the close of the pay period and the summary and listing reports must be filed within 30 days of the close of the pay period. Our testing revealed the following:</p> <p>Service Period: 11/08-4: Contribution payments due November 28, 2008, were paid late on December 3, 2008. The summary report was submitted within the required time frame.</p> <p>Service Period: 11/09-3: Contribution payments and the summary report were submitted to CalPERS within the required timeframes.</p> <p>Additionally, CalPERS ERSD reported that the District submitted 40 late payrolls during the review period, including one of the periods identified above. We selected another three of the 40 late payrolls identified by ERSD for further review and noted the contribution payments and CalPERS summary and listing reports were reported late.</p>	<p>The District should develop procedures to ensure that payroll contribution payments and reports are submitted timely.</p> <p>The District should work with CalPERS ERSD to assess the impact of this late reporting and determine what adjustments, 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, 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>California Code of Regulations, § 565.1 (b), states, "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."</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 Board of Administration of CalPERS and the Board of Directors of the District excluded police officers and members of the governing body from CalPERS membership. Our review did not identify any police officers working for the District or members of the governing body enrolled into CalPERS membership.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of four temporary/part-time employees to determine whether the individuals met CalPERS membership eligibility requirements for work</p>	<p>None.</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>conducted in fiscal years 2007/2008 and 2008/2009. Our sample testing revealed that the sampled employees did not meet CalPERS membership eligibility requirements and were properly excluded from membership.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the District's IRS 1099 Miscellaneous Income forms for calendar years 2008 and 2009 in order to identify employees that may be misclassified as independent contractors. The selected 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>The District did not employ retired annuitants during the review period.</p>	<p>None.</p>
<p>7. The District may not appropriately report members under the proper coverage group code.</p>	<p>Our sample testing revealed that the District reported individuals under the appropriate coverage group code.</p>	<p>None.</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.</p>	<p>We reviewed the District's procedures for processing applications for industrial disability retirement. We found that three District employees filed for industrial disability retirement in the review period. The District made the industrial disability retirement determinations within the required six month time frame.</p>	<p>None.</p>
<p>9. The District may not accurately report unused sick leave balances for retiring CalPERS members.</p>	<p>The District elected the optional provision of Government Code, § 20965, credit for unused sick leave. We sampled four CalPERS members that retired during the review period. Our sample testing revealed the unused sick leave balances were properly computed using a divisor of eight when converting hours to days; however, the District incorrectly certified one member's unused sick leave balance. Specifically, the District certified an unused sick leave balance of 219.75 days. However, records showed an unused sick leave balance of 250.77 days, which included 21.666 sick leave days provided by the District to be used to purchase one month of service credit at retirement. The Government Code only allows reporting of unused sick leave accrued by a member during the normal course of employment and specifically excludes additional days reported for the purpose of increasing the member's retirement benefit. After deducting the non-reportable unused sick leave (250.77 - 21.666 = 229.104) we determined the District under reported the unused sick leave balance by 9.354 days.</p>	<p>The District should ensure that retiring members' unused sick leave balance is properly reported to CalPERS and does not include additional days of sick leave reported for the purpose of increasing a member's retirement benefit.</p> <p>The District should work with CalPERS BNSD to determine 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 report has been sent to the District and CalPERS 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>Government Code, § 20965, states, “A local miscellaneous member and local safety member of a contracting agency who has contracted for this provision, and whose effective date of retirement is within four months of separation...shall be credited at the time of retirement with 0.004 years of service credit for each unused day of sick leave certified to the board by his 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 maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the District’s ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users.</p> <p>The District maintained reasonable password security precautions for ACES users. However, the District did not properly maintain ACES security agreements for employees who utilized the ACES reporting system. Specifically, the Employer User Security Agreements for</p>	<p>The District should ensure that ACES user security agreements are timely completed and retained in a secure worksite location for the life of the Agreements and for two years following the deactivation or termination of an Agreement.</p> <p>A confidential list identifying the individuals mentioned in this</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
10. The District may not maintain appropriate ACES security procedures. (continued)	<p>two employees utilizing the reporting database could not be located. New user agreements were completed and copies were provided during the review.</p> <p>The Employer User Security Agreement states that this form must be completed for each employee using CalPERS on-line access and be available to CalPERS upon request. Forms must be retained in a secure work site location of the employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement.</p>	report has been sent to the District and CalPERS ERSD as an attachment to our draft report.

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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
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APPENDIX A

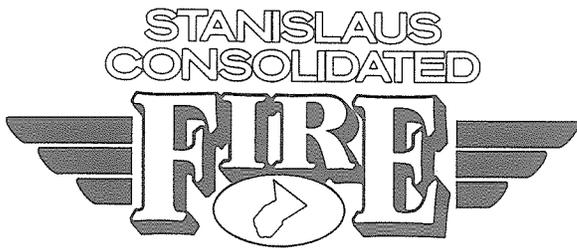
STATUS OF PRIOR REVIEW

**FOLLOW UP ON PRIOR REVIEW FINDINGS
STANISLAUS CONSOLIDATED FIRE PROTECTION DISTRICT EMPLOYER CODE 1662
PRIOR REVIEW P00-028, DATED JUNE 2001**

<i>Prior Review Finding</i>	<i>Prior Review Recommendation</i>	<i>Status of Prior Recommendation</i>
1. Compensation not reported.	The District should review its records to determine the amount of compensation paid out as holiday pay prior to November 1999 for retired members and work with CalPERS ERSD to determine what adjustments are needed to retirees' accounts.	Implemented. No similar exceptions were noted.
2. Payroll reporting error.	<p>1. The District incorrectly reported special compensation as regular earnings. The District's holiday cash out was reported as regular earnings instead of special compensation.</p> <p>2. The District did not correctly report payrates for employees who received payrate increases in July 1999.</p> <p>The recommendation was for the District to work with ERSD to determine the impact and determine what adjustments, if any, were needed.</p>	<p>A similar exception was noted during the review period. Specifically, holiday cash out was incorrectly reported for an employee not required to work holidays.</p> <p>Implemented. No similar exceptions were noted.</p>
3. Incorrect reporting of unused sick leave.	<p>The District did not report the unused sick leave balance for a sample of retirees who cashed out a portion of their unused sick leave.</p> <p>The recommendation was for the District to review and report the unused sick leave balances for employees that retired on or after June 23, 1999.</p>	Similar exception noted during the review. Specifically, the unused sick leave balance was incorrectly reported for a retiring member.
<p><u>Conclusion:</u> The District did not implement two of the recommendations from our prior review dated June 2001. Specifically, holiday cash out compensation was incorrectly reported for an employee and the unused sick leave balance was incorrectly certified for a retiring member.</p>		

APPENDIX B

DISTRICT'S WRITTEN RESPONSE



Stanislaus Consolidated Fire Protection District
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Riverbank, California 95367
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May 27, 2010

Margaret Junker, Interim Chief Auditor
CalPERS
Office of Auditor Services
P.O. Box 942701
Sacramento, CA 95229-2701

Re: CalPERS Audit P09-049; Employer Code: 1662

Dear Ms. Junker:

Please accept this correspondence as the District's written response to the draft report of the recently completed CalPERS audit. We agree with the recommendations in the report. Many of the issues found by Mr. Martinez had already been identified and remedied prior to the audit occurring. Any remaining issues will be corrected as soon as practical.

Please contact me if you have any questions regarding this issue at your convenience. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Mayotte", with a long, sweeping underline that extends to the right.

Stephen Mayotte
Fire Chief