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July 12, 2011

Employer Code: 0422  
Job Number: P10-017

County of Yuba  
Jill Abel, Human Resources Deputy Director  
915 8<sup>th</sup> Street  
Marysville, CA 95901

Dear Ms. Abel:

Enclosed is our final report on the results of the public agency review completed for the County of Yuba. Your agency's written response indicates agreement with the issues noted in the report, except for issues related to payrate and earnings found in Findings 2 and 3. The written response is included as an appendix to the report. As part of our resolution process, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

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

Enclosure

cc: Finance Committee Members, CalPERS  
Peter Mixon, General Counsel, CalPERS  
Darryl Watson, Chief, CASD, CalPERS  
Mary Lynn Fisher, Chief, BNSD, CalPERS  
Don Martinez, Interim Assistant Chief, HAS, CalPERS  
Honorable Board Members, County of Yuba

# Office of Audit Services



## Public Agency Review

## County of Yuba

Employer Code: 0422  
Job Number: P10-017

July 2011

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# COUNTY OF YUBA

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## TABLE OF CONTENTS

| <u>SUBJECT</u>   | <u>PAGE</u> |
|--|-------------|
| Results in Brief.....  | 1           |
| County Background.....   | 1           |
| Scope.....   | 2           |
| Office of Audit Services Review Results .....                  | 3           |
| Finding 1: Non-Reportable Compensation Reported .....          | 3           |
| Finding 2: Compensation Earnable Incorrectly Reported .....    | 4           |
| Finding 3: Member Earnings Incorrectly Reported .....          | 5           |
| Finding 4: Temporary/Part-Time Membership Eligibility .....    | 6           |
| Finding 5: Health Benefits Program Dependent Eligibility ..... | 7           |
| Conclusion .....   | 8           |
| CalPERS Background.....  | Appendix A  |
| Objectives .....   | Appendix B  |
| Criteria .....   | Appendix C  |
| Status of Prior Review .....                                   | Appendix D  |
| County of Yuba’s Written Response .....                        | Appendix E  |

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# COUNTY OF YUBA

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## RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the County of Yuba's (County) enrolled individuals, member compensation, required health and retirement documentation and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Non-reportable compensation was reported.
- Compensation earnable was incorrectly reported.
- Member earnings were incorrectly reported.
- Temporary/part-time eligible employees were not enrolled in membership.
- Health Benefit Program dependent eligibility verification not provided.

The pertinent sections of the Government Code and California Code of Regulations for each finding are described in greater detail under Appendix C.

A confidential list identifying the individuals mentioned in this report has been sent to the County and CalPERS Customer Account Services Division (CASD) as an Appendix to our draft report.

## COUNTY BACKGROUND

The County operates under an Administrator – Board of Supervisors form of government and provides the following services: public safety, highways and streets, sanitation, health and social services, public improvements, planning and zoning, and general administrative services. Memoranda of Understanding (MOU), ordinances, resolutions, and rules outline all County employees' salaries and benefits and state the terms of employment agreed upon between the County and its employees.

The County contracted with CalPERS effective February 1, 1960, to provide retirement benefits for local miscellaneous employees and county peace officers. The County's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The County contracted with CalPERS effective July 1, 1999, to provide health benefits to all eligible employees.

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# COUNTY OF YUBA

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## SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the County's payroll reporting and member enrollment processes as these processes relate to the County's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from July 1, 2007 through June 30, 2010. The on-site fieldwork for this review was conducted on October 18, 2010 through October 22, 2010. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed under Appendix B.

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# COUNTY OF YUBA

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

**Finding 1:** The County incorrectly reportable compensation in the form of overtime pay and shift differential pay to CalPERS.

### ***Recommendations:***

The County should discontinue reporting overtime and shift differential compensation to CalPERS.

The County should work with the CalPERS CASD to assess the impact of this non-reportable compensation issue and determine what adjustments are needed.

### ***Condition:***

*Overtime Pay:* The County incorrectly reported overtime earnings as statutory holiday pay for two sampled employees. The employees were entitled to receive statutory holiday pay for regularly scheduled hours worked on a holiday. However, the County reported all hours worked on the holiday, including hours that were not part of the employees' regularly scheduled hours. Hours outside the normally scheduled hours are considered overtime hours and compensation for those hours would not be reportable to CalPERS.

*Shift Differential Pay:* The County incorrectly reported compensation for shift differential pay for one sampled employee. Specifically, the County paid and reported \$24.00 as shift differential pay for an employee in the 12/09-0 service period tested. The shift differential pay is not a provision of this employee's MOU or any written labor policy or agreement; therefore, it is not reportable compensation to CalPERS.

### ***Criteria:***

Government Code § 20630(a), § 20630(b), § 20635, § 20636(a), § 20636(c)(1), § 20636(c)(6),

California Code of Regulations § 571(b)

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# COUNTY OF YUBA

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**Finding 2:** The County incorrectly calculated and reported earnable compensation in the form of education incentive payments to CalPERS.

***Recommendations:***

The County should ensure that education incentive payments are correctly calculated and reported to CalPERS.

The County should work with the CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed.

***Condition:***

The County's written labor agreement provides for education incentive pay for certain eligible employees of 2.5 percent of the monthly base payrate for completion of an Associate's Degree and 5 percent of the monthly base payrate for completion of a Bachelor's Degree. The County calculated the percentage on the base payrate without the index rate which created an under reporting of the earnable compensation. The County should have calculated the education incentive pay on the base payrate plus index rate and reported the amount to CalPERS as special compensation.

***Criteria:***

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

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# COUNTY OF YUBA

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**Finding 3:** The County reported incorrect payrates and earnings for salary merit adjustments to CalPERS .

***Recommendations:***

The County should ensure correct payrates and earnings are reported to CalPERS and apply retroactive adjustments when necessary.

The County should work with CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are required.

***Condition:***

The County incorrectly reported payrates for three sampled employees who received a retroactive merit salary increase. The County applied the new payrate once the paperwork was approved and received but did not apply the retroactive adjustment back to the effective date of the merit salary increase.

Additionally, one of the three employees held two positions in the reported month and the County prorated earnings and reported the total earnings under one payrate. The County should have reported the earnings for the merit salary increase separately for each payrate and position.

***Criteria:***

Government Code § 20630(b), § 20636(b)(1)



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# COUNTY OF YUBA

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**Finding 4:** The County did not enroll temporary/part-time eligible employees into CalPERS membership when eligibility requirements were met.

***Recommendations:***

The County should immediately enroll all eligible employees into CalPERS membership and review current procedures for monitoring the hours worked for temporary part-time employees to ensure timely enrollment of eligible employees.

The County should work with CalPERS CASD to assess the impact of not complying with membership eligibility enrollment requirements and determine what adjustments are needed.

***Condition:***

The County employed individuals on a temporary part-time basis and OAS reviewed the hours worked for a sample of employees to determine if they met CalPERS membership eligibility requirements. Three of the six sampled employees met CalPERS membership eligibility requirements by reaching 1,000 hours worked in a fiscal year; however, the County did not enroll one of the eligible employees and two of the eligible employees were not enrolled into CalPERS membership timely.

One employee met CalPERS eligibility requirements in June 2010 and should have been enrolled in July 2010. However, the employee was not enrolled into CalPERS membership. The second employee met eligibility in December 2009 and should have been enrolled in January 2010. The third employee met eligibility in May 2010 and should have been enrolled in June 2010. These two employees were enrolled into CalPERS membership late, with an effective date of October 22, 2010.

***Criteria:***

Government Code § 20305(a), § 20044

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# COUNTY OF YUBA

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**Finding 5:** The County did not provide required eligibility documentation for employees' dependents enrolled in CalPERS Health Benefits Program.

***Recommendations:***

The County should ensure the required employee dependent enrollment documentation is on file at the County within 60 days from the date of the final report.

The County should work with CalPERS CASD to obtain the required documentation and cancel enrollment of any person who is found to be ineligible to participate in the CalPERS Health Benefits Program.

***Condition:***

OAS reviewed a sample of seven employees to assess the health benefits eligibility and enrollment for these employees and their dependents. Sample testing revealed that the County properly enrolled employees into CalPERS Health Benefits Program; however, OAS was unable to ascertain that enrollments for the employees' dependents were proper because the County did not provide required documentation requested, such as birth certificates. Specifically, the County did not provide birth certificates verifying the eligibility of five dependent children enrolled under two sampled employees' health benefits.

***Criteria:***

Government Code §22775, § 22797, §20085(a),(b),(c)

California Code of Regulations § 599.500(f), (k), (n)

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# COUNTY OF YUBA

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## CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the County's payroll and health records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code except as noted.

The findings and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared.

Respectfully submitted,

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

Date: July 2011

Staff: Michael Dutil, CIA, Senior Manager

Diana Thomas, CIDA, Manager

Adeeb Alzanoon

Jodi Epperson

Edward Fama

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**COUNTY OF YUBA**

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# **APPENDIX A**

## **BACKGROUND**

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# COUNTY OF YUBA

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## BACKGROUND

### California Public Employees' Retirement System

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

The CalPERS Customer Account Services Division (CASD) 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 Health Account Services section, as part of the CASD, provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

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.

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**COUNTY OF YUBA**

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# **APPENDIX B**

## **OBJECTIVES**

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# COUNTY OF YUBA

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## OBJECTIVES

The objectives of this review were to determine:

- Whether the County complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the County's retirement and health benefits contracts with CalPERS were followed.

This review covers the period July 1, 2007 through June 30, 2010. OAS completed a prior review covering the period of January 1, 1992 to December 31, 1994.

## SUMMARY

### Procedures, Sample Sizes, Sample Periods, and Findings

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

- ✓ Reviewed:
  - Contracts and subsequent amendments the County had with CalPERS
  - Correspondence files maintained at CalPERS, County Board minutes, MOUs and those employment agreements provided between the County and its employees
  - Salary, wage and benefit agreements including applicable resolutions
  - Personnel files including employee salary change reports
  - County generated payroll information - Summary Reports and PERS listings
  - Other documents used to specify the payrate, special compensation and benefits of represented and unrepresented employees
  - Health Benefits Program enrollment and supporting documentation files
  - County ordinances
  - Various other documents as necessary

OAS performed the following procedures. Related sample sizes, sample periods and findings are listed.

- ✓ Reviewed the payroll transactions and compared the County's payroll register with the data reported to CalPERS to determine whether the County correctly reported employees' compensation.

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# COUNTY OF YUBA

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Sample Size and Period: Reviewed payroll records and compensation reported to CalPERS for a sample of 20 employees over service periods December 2009 (12/09-0) and June 2010 (6/10-0).

**See Finding 1:** Non-reportable compensation reported.

**No Finding:** Compensation earnable not reported.

**See Finding 2:** Compensation earnable incorrectly reported.

- ✓ Reviewed documents specifying payrates for sampled employees to determine whether the payrates were reported pursuant to publicly available pay schedules.

Sample Size and Period: Reviewed payroll records and compensation reported to CalPERS for a sample of 20 employees during our scope of review period, July 1, 2007 through June 30, 2010.

**No Finding**

- ✓ Reviewed the County's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.

Sample Size and Period: Reviewed payroll records and listings for a sample of 20 employees during our scope of review period, July 1, 2007 through June 30, 2010.

**No Finding:** Contribution code, pay code, work schedule code, service period.

**No Finding:** Coverage group.

**See Finding 3:** Member earnings, member name, social security number.

- ✓ Reviewed the County's enrollment practices to determine whether the individuals met CalPERS membership eligibility requirements.

Sample Size and Period: Reviewed the County's enrollment practices for a sample consisting of current County Supervisors, six temporary/part-time employees, five retired annuitants in fiscal years 2008/2009 and 2009/2010, and six independent contractors in calendar years 2008 and 2009.



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# COUNTY OF YUBA

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**See Finding 4:** Temporary/part-time employees.

**No Finding:** Retired annuitants.

**No Finding:** Independent contractors.

- ✓ Reviewed the County's calculation and reporting of unused sick leave balances for six retiring members.

**No Finding**

- ✓ Reviewed seven employees and their dependents to determine whether the County properly enrolled eligible individuals into CalPERS Health Benefits Program.

**See Finding 5:** Health Benefit Program dependent eligibility

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**COUNTY OF YUBA**

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# **APPENDIX C**

## **CRITERIA**

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# COUNTY OF YUBA

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## CRITERIA

### ***Finding 1: Non-reportable compensation reported***

Government Code § 20630, subdivision (a), states:

As used in this part, compensation means the remuneration paid out of funds controlled by the employer in payment for the member's services performed during normal working hours...

Government Code § 20630, subdivision (b), states, in part:

Compensation shall be reported in accordance with Section 20636 and shall not exceed compensation earnable, as defined in Section 20636.

Government Code § 20635, states, in part:

When the compensation of a member is a factor in any computation to be made under this part, there shall be excluded from those computations any compensation based on overtime put in by a member whose service retirement allowance is a fixed percentage of final compensation for each year of credited service. For the purposes of this part, overtime is the aggregate service performed by an employee as a member for all employers and in all categories of employment in excess of the hours of work considered normal for employees on a full-time basis, and for which monetary compensation is paid.

Government Code § 20636, subdivision (a), states, in part:

Compensation earnable by a member means the payrate and special compensation of the member...

Government Code § 20636, subdivision (c)(1), states, in part:

Special compensation of a member includes a payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions.

Government Code § 20636, subdivision (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.

California Code of Regulations, § 571 (b), states, in part:

The Board has determined that all items of special compensation listed in subsection (a) are:

- (1) Contained in a written labor policy or agreement;
- (2) Available to all members in the group or class;
- (3) Part of normally required duties;

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# COUNTY OF YUBA

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(4) Performed during normal hours of employment...

**Finding 2:** *Compensation earnable incorrectly reported*

Government Code § 20636, subdivision (a), states, in part:

Compensation earnable by a member means the payrate and special compensation of the member....

Government Code § 20636, subdivision (c)(1), states, in part:

Special compensation of a member includes a payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions.

**Finding 3:** *Member earnings incorrectly reported*

Government Code § 20630, subdivision (b), states:

When compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid. Compensation shall be reported in accordance with Section 20636 and shall not exceed compensation earnable, as defined in Section 20636.

Government Code § 20636, subdivision (b)(1), defines payrate, as follows:

Payrate means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules.

**Finding 4:** *Temporary/part-time membership eligibility*

Government Code § 20305, subdivision (a), states, in part:

An employee serving on a less than full-time basis is excluded from this system unless...(3)(B) the person completes 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.

Government Code § 20044, defines a fiscal year as, "Any year commencing on July 1<sup>st</sup> and ending with June 30<sup>th</sup> next following."

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# COUNTY OF YUBA

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**Finding 5:** *Health Benefits Program dependent eligibility*

Government Code § 22775, defines family member as:

"Family member" means an employee's or annuitant's spouse or domestic partner and any unmarried child, including an adopted child, a stepchild, or recognized natural child. The board shall, by regulation, prescribe age limits and other conditions and limitations pertaining to unmarried children.

Government § 22797, states:

The board or an authorized representative may perform audits of each employer and may, at a specified time and place, require the employer to provide information or make available for examination and copying books, papers, data, and records, including, but not limited to, personnel and payroll records, as deemed necessary by the board to determine compliance with the provisions of this part. The information obtained from an employer shall remain confidential.

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."

California Code of Regulations § 599.500, contains definitions that apply to the Public Employees' Medical and Hospital Care Act, including the following pertinent provisions:

- (f) "Enroll" means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing to be enrolled in a health benefits plan....

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## COUNTY OF YUBA

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(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....

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**COUNTY OF YUBA**

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# **APPENDIX D**

**PRIOR REVIEW**

**FOLLOW UP ON PRIOR REVIEW FINDINGS  
COUNTY OF YUBA EMPLOYER CODE 0422  
PRIOR REVIEW P8-015, DATED FEBRUARY 2000**

| Prior Review Finding                              | Prior Review Recommendation  | Status of Prior Recommendation  |
|---|--|---|
| 1. Incorrect reporting of uniform allowance.      | The county should immediately stop reporting standby pay as compensation for active employees. The county should work with CalPERS's Member Services Division (MSD) to determine whether or not corrections for standby pay incorrectly reported during and after the audit period should be made. | Implemented. No similar observations were noted.  |
| 2. Reporting of nonreportable compensation.       | The county should immediately stop reporting the additional monthly compensation to the chief deputy planning director for his assumption of the duties of LAFCO director.   | Implemented. No similar observations were noted.  |
| 3. Eligibly temporary employee not reported.      | The County should establish effective procedures to monitor the hours of temporary employees and enroll them in CalPERS when they work more than 1,000 hours in a fiscal year.   | Similar finding noted in the current report. The agency monitors all temporary / part-time employees but the agency does not effectively monitor enrollment into CalPERS. |
| 4. Employee misclassified as a contract employee. | The county should examine all independent contractor agreements it entered into during and after the audit period. The county should ensure that those individuals who are employees are enrolled in CalPERS if they meet eligibility criteria.  | Implemented. No Similar observations were noted.  |

**Conclusion:** The County did implement all of the recommendations of our prior review with the exception of enrolling eligible employees when they work more than 1,000 hours in a fiscal year. The County did establish an effective procedure to monitor the hours.



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**COUNTY OF YUBA**

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# **APPENDIX E**

**COUNTY OF YUBA'S  
WRITTEN RESPONSE**

# The County of Yuba

HUMAN RESOURCES  
and ORGANIZATIONAL SERVICES

MARTHA K. WILSON, DIRECTOR



915 8<sup>th</sup> Street, Suite 1  
Marysville, CA 95901

(530) 749-7860  
(530) 749-7864 - Fax

May 13, 2011

California Public Employees' Retirement System  
Office of Audit Services  
Attn: Margaret Junker  
PO Box 942701  
Sacramento, CA 94229-2701  
Fax (916) 795-7836

Subject: Employer Code: 0422  
Job Number: P10-017

Dear Ms. Junker;

The County of Yuba has received and reviewed the draft report of the audit dated April 2011. There are a total of two (2) findings that we would like to respond to:

**Finding 2 states "Earnable compensation in the form of education incentive payments were incorrectly calculated and reported to CalPERS for two sampled employees."** The County's MOU with the two affected labor groups, Deputy Sheriff's Association (DSA) and Law Enforcement Management and Supervisory Association (MSA), states in Article 19, Section 5 (DSA MOU) that the incentive will be "2.5% of monthly base rate" and "5% of monthly base rate" for an Associate's degree and Bachelor's degree, respectively. The MOU further defines in Article 1 that "Base Rate is defined as the entry level pay of a classification on the County Classification System-Basic Salary/Hourly Schedule (Base multiplied by the 1.0000 index rate)."

Our MOU establishes a different definition of Base Rate than CalPERS is using to interpret our MOU language; specifically our base rate does not include the longevity index.

Further, Government Code 20631 states that "A contracting agency may report an amount for each member that is equal to a uniformly applied percentage of salary in lieu of computing and reporting the actual compensation attributable to each individual member if the contracting agency has agreed in a memorandum of understanding reached pursuant to Chapter 10 (commencing with Section 3500) of Division 4 of Title 1 that the aggregate amount to be reported by the contracting agency for all members within a membership classification bears a reasonable relation to the aggregate amount that would otherwise be required to be reported pursuant to Section 20636." Yuba County has established an MOU that agrees to the Base Rate using the 1.0000 index to be used for education incentive pay.

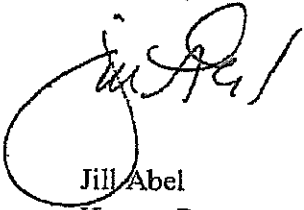
Finally, Government Code 20636 states that "(5) If the provisions of this subdivision, including the board's determinations pursuant to subparagraph (F) of paragraph (2) and subparagraph (D) of paragraph (3), are in conflict with the provisions of a memorandum of understanding reached pursuant to Section

3517.5 or 3560, the memorandum of understanding shall be controlling without further legislative action." In conclusion, we believe our MOU should be allowed to prevail.

**Finding 3 states "Incorrect payrates and earnings were reported to CAIPERS for three sampled employees."** It is our goal to always report correct payrates to CalPERS however we believe, in the case of the sample employee #1 on the report, there may be a system-related limitation preventing accurate reporting. Employee #1 transferred from one department to another department effective December 2007; however, did not change coverage groups. In reporting the employee's wages to PERS, the County listed payrate and earnings on a single entry as a Normal Current Contribution Code 11. We are aware that we can list an employee in two separate departments if they have different coverage groups, however we do not believe the system allows an employer to report a two line entry for the same employee in two different departments. If the system does allow this type of transaction and this is a training issue, please contact our office to explain the procedure so that we will be able to report this situation correctly in the future.

Please contact our office if you have any questions about our response. We appreciate your time and consideration.

Sincerely,



Jill Abel  
Human Resources Deputy Director  
Yuba County Human Resources and Organizational Services  
(530) 749-7868