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January 21, 2011

Employer Code: 0054
Job Number: P09-009

City of Santa Monica
Candace Tysdal, Financial Operations Manager
1717 4th Street, Suite 250
Santa Monica, CA 90401

Dear Ms. Tysdal:

Enclosed is our final report on the results of the public agency review completed for the City of Santa Monica. Your agency's written response indicates agreement with some of the issues noted in the report and disagreement with others. 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, CPA, CIA, CIDA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Holly Fong, Chief, EMHS, CalPERS
Honorable Board Members, City of Santa Monica
Carol Swindell, Director of Finance, City of Santa Monica
Donna Peter, Director of Human Resources, City of Santa Monica

City of Santa Monica



Public Agency Review



Office of Audit Services

**Employer Code: 0054
Job Number: P09-009**

February 2011

CITY OF SANTA MONICA

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CITY OF SANTA MONICA

RESULTS IN BRIEF

We reviewed the City of Santa Monica's (City) 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:

- Special compensation was incorrectly reported.
- Non-reportable compensation was reported as special compensation.
- Payroll information was not submitted within the required timeframes.
- Temporary/part-time employees were not enrolled into CalPERS membership.
- An industrial disability retirement determination was not made within the six month time frame requirement.
- Required health enrollment forms were not maintained.
- Health contributions were not submitted within the required timeframes.
- A required delete ACES user security agreement form was not completed.

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.

CITY OF SANTA MONICA

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 City of Santa Monica was incorporated on November 30, 1886. The City operates under a Council-Manager form of government and provides traditional municipal services as authorized by its charter as well as various enterprise services. Memoranda of Understanding (MOU) and employment agreements outline all City employees' salaries and benefits and state the terms of employment agreed upon between the City and its employees.

The City contracted with CalPERS effective July 1, 1944, to provide retirement benefits for local miscellaneous, police, and fire employees. The City's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The City contracted with CalPERS effective August 1, 1987, to provide health benefits to eligible police safety employees.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the City's payroll reporting and enrollment processes as these processes relate to the City's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the City 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 October 5, 2009 through October 15, 2009.

The review period was limited to the examination of sampled records and processes from July 1, 2006 through June 30, 2009. To accomplish the review objectives, we performed the following:

CITY OF SANTA MONICA

- ✓ Reviewed the contract and subsequent amendments the City had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the City had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the City's payroll register with the data reported to CalPERS to determine whether the City correctly reported employees' compensation.
- ✓ Reviewed the City's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the City'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 City'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 City's classification of employees to determine whether the City reported employees in the appropriate coverage groups.
- ✓ Reviewed the City's process for industrial disability retirement determinations and appeals for local safety members.
- ✓ Reviewed employees and their dependents to determine whether the City properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Reviewed health premium payment information to determine whether the payments were remitted within the required timeframe.
- ✓ Reviewed health contribution payments to determine whether the City contributed the correct employee/employer contribution amounts.
- ✓ Determined whether the City maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

CITY OF SANTA MONICA

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 City may not accurately report compensation to CalPERS.</p> | <p>We reviewed payroll records and compensation reported to CalPERS for a sample of 28 employees over two service periods. The service periods reviewed were the first service period of January 2009 (1/09-3) and the first service period of June 2009 (6/09-3).</p> <p>The earnings reported to CalPERS were reconciled to the City's payroll records. The City accurately reported compensation to CalPERS for the employees in our sample, with the following exceptions:</p> <p><u>Non-Reportable Compensation Reported</u></p> <p>The City incorrectly reported management incentive pay in the 1/09-3 service period on behalf of professional and administrative employees. Specifically, management incentive pay is not reportable compensation for employees in the professional and administrative groups. Management incentive is only reportable for employees in the management group</p> <p>Government Code, § 20636(a), states, "Compensation earnable by a member means the payrate and special</p> | <p>The City should immediately discontinue reporting management incentive pay as compensation to CalPERS.</p> <p>The City should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|--|
| <p>1. The City may not accurately report compensation to CalPERS. (continued)</p> | <p>compensation of the member, as defined in subdivisions (b), (c), and (g), and as limited by Section 21752.5."</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), includes a list which exclusively identifies and defines special compensation items for members employed by contracting agency and school employers that must be reported to CalPERS if they are contained in a written labor policy or agreement. Floating holidays are not identified in the list of reportable items of special compensation.</p> <p>California Code of Regulations, § 571(a)(5), defines holiday pay as, "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."</p> <p><u>Special Compensation Incorrectly Reported</u></p> <p>The City incorrectly calculated longevity pay and police educational incentive pay on regular earnings and holiday pay for four sampled employees. Longevity pay and</p> | <p>A confidential list identifying the employees mentioned in this report has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p> <p>The City should stop reporting special compensation that is not included in a written labor policy</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|--|---|--|
| <p>1. The City may not accurately report compensation to CalPERS. (continued)</p> | <p>educational incentive pay are based on a percentage of the base salary. Holiday pay is not considered part of the base salary unless it is specified in a written labor policy or agreement.</p> <p>Government Code, § 20636(b)(1), states, in part, "Payrate means the normal monthly rate of pay or base pay of the member..."</p> <p>California Code of Regulations, § 571(a), exclusively identifies and defines special compensation items for members employed by contracting agency and school employers that must be reported to CalPERS if they are contained in a written labor policy or agreement.</p> | <p>or agreement.</p> <p>The City 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 employees mentioned in this section of the report was sent to the City and CalPERS ERSD as an appendix to our draft report.</p> |
| <p>2. The City may not report payrates in accordance with publicly available salary schedules.</p> | <p>We reviewed payrates reported to CalPERS in the 6/09-3 service period and reconciled the payrates to the City's public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. We determined the payrates were properly reported to CalPERS and in accordance with public salary information.</p> | <p>None.</p> |
| <p>3. The City may not accurately report payroll information to CalPERS.</p> | <p>We reviewed the payroll information reported to CalPERS for the sampled service periods. Our sample testing revealed that the City correctly reported the payroll information to CalPERS.</p> | <p>None.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|---|
| <p>4. The City may fail to or did not submit payroll in a timely manner to CalPERS.</p> | <p>We reviewed service periods 9/07-5, 1/09-3, and 6/09-3 to determine if payroll information was submitted to CalPERS within the required timeframes. Payroll information consists of CalPERS summary reports and payment of contributions. The following exceptions were noted.</p> <ul style="list-style-type: none"> • Service period 9/07-5: The pay period closed September 29, 2007. The summary report was due in the CalPERS Sacramento office by October 29, 2007. The report was submitted to CalPERS on October 8, 2007, within the 30-day time period. The payroll contributions were due in the CalPERS Sacramento office by October 14, 2007. However, the payroll contributions were received in the CalPERS system on October 15, 2007, which is beyond the due date. • Service period 1/09-3: The pay period closed January 3, 2009. The summary report was due in the CalPERS Sacramento office by February 2, 2009. It was submitted to CalPERS on January 15, 2009 within the 30-day time period. The payroll contributions were due in the CalPERS Sacramento office by January 18, 2009. However, the payroll contributions were received in the CalPERS system on January 20, 2009, which is beyond the due date. <p>California Code of Regulations, § 565, states, "Member</p> | <p>The City should develop procedures to submit contributions in a timely manner. In addition, the City should work with CalPERS ERSD to assess the impact of the untimely reporting.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|---|
| <p>4. The City may fail to or did not submit payroll in a timely manner to CalPERS. (continued)</p> | <p>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>5. The City may not enroll all eligible employees into CalPERS membership.</p> | <p><u>Optional Membership</u></p> <p>The City's elected officials were eligible for optional CalPERS membership. We reviewed the City's enrollment practices to determine whether the elected officials were offered optional membership. Our sample testing revealed that the City properly offered and enrolled one sampled elected official into CalPERS membership.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of 30 temporary/part-time employees and examined the number of hours worked in fiscal years 2006/2007, 2007/2008, and 2008/2009 to determine if membership eligibility requirements were met, and if so, enrollment into CalPERS membership was timely. We also reviewed CalPERS databases to determine if the sampled employees met eligibility requirements through membership with another CalPERS agency. The City properly enrolled or excluded temporary/part-time employees except in the following instances:</p> | <p>None.</p> <p>The City should enroll employees who meet eligibility requirements by exceeding 1,000 hours in a fiscal year or through prior CalPERS membership. The City should review and monitor all hours worked in a fiscal year by all temporary/part-time employees and enroll those that meet membership eligibility criteria.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|--|
| <p>5. The City may not enroll all eligible employees into CalPERS membership. (continued)</p> | <ul style="list-style-type: none"> • In fiscal year 2006/2007 three employees exceeded 1,000 hours in the final pay period of the year which covered June 24, 2007 through June 30, 2007 and were not enrolled into CalPERS membership. Another employee had prior CalPERS membership with the Los Angeles Unified School District effective September 8, 2006. This employee worked on a part-time basis with the City. As a result, the City should have submitted a membership enrollment form and contributions for this employee for all hours worked after September 8, 2006. • In fiscal year 2007/2008 one employee exceeded 1,000 hours in the final pay period of the year which covered June 22, 2008 through June 30, 2008 and was not enrolled into CalPERS membership. • In fiscal year 2008/2009 one employee had prior CalPERS membership with the Los Angeles Unified School District effective June 19, 1979. The employee worked on a part-time basis with the City. As a result, the City should have submitted a membership enrollment form and contributions for all hours worked beginning with his first day of employment with the City. <p>In addition, the City hired temporary employees through an outside temporary employment agency. We selected four employees to review the hours worked during fiscal years</p> | <p>In addition, the City should review its current procedures to monitor the hours worked for temporary/part-time employees in order to identify which employees must be enrolled once membership eligibility requirements are met.</p> <p>The City 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 employees mentioned in this section has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|----------------|
| <p>5. The City may not enroll all eligible employees into CalPERS membership. (continued)</p> | <p>2007/2008 and 2008/2009. We determined sampled individuals were not properly enrolled by the City after meeting eligibility requirements. Specifically,</p> <ul style="list-style-type: none"> • In fiscal year 2007/2008 three employees exceeded the 1,000 hour threshold and were not enrolled into CalPERS membership when eligibility requirements were met. One employee was enrolled by the City on March 30, 2009; however, this employee exceeded 1,000 hours in fiscal year 2007/2008; therefore, was not enrolled timely. • In fiscal year 2008/2009 another employee exceeded the 1,000 hour threshold and was not enrolled into CalPERS membership when eligibility requirements were met. <p>Government Code § 20305(a)(3)(B) states, in part, "An employee serving on a less than full-time basis is excluded from this system unless 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>Government Code, § 20028(b), defines an employee as "Any person in the employ of a contracting agency."</p> | |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|----------------|
| <p>5. The City may not enroll all eligible employees into CalPERS membership. (continued)</p> | <p>Government Code, § 20044, defines a fiscal year as “Any year commencing July 1st and ending June 30th next following.”</p> <p><u>Independent Contractor</u></p> <p>We reviewed the City’s IRS 1099 Miscellaneous Income forms for calendar years 2007 and 2008 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 City may unlawfully employ retired annuitants.</p> | <p>We reviewed the hours worked for two retired annuitants in fiscal year 2007/2008, and six retired annuitants in 2008/2009. Our sample testing revealed that the retired annuitant did not exceed the 960-hour threshold.</p> <p>We also determined that a bona fide separation from employment, per Government Code Section 21220.5, was not needed for seven of the eight sampled retired annuitants as their age at retirement was beyond the normal retirement age. The eighth retired annuitant retired prior to the bona fide separation regulation effective date.</p> | <p>None.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|--|---|
| 7. The City may not appropriately report members under the proper coverage group code. | Our sample testing revealed that the City reported individuals under the appropriate coverage group code. | None. |
| 8. The City may not appropriately process industrial disability retirement determinations and appeals for safety members. | <p>We reviewed the City’s procedures for processing applications for Industrial Disability Retirement. The City had appeals procedures in place; however, one sampled employee did not have a determination made within the required six month timeframe.</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. A local safety member may waive the requirements of this section.”</p> | <p>The City should work with CalPERS BNSD to assess the impact of this late determination and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this report has been sent to the City and CalPERS BNSD as an appendix to our draft report.</p> |
| 9. The City may not properly enroll eligible employees and their dependents in health benefits. | We reviewed health enrollment documents for a sample of four City employees to determine if the City accurately enrolled members and their eligible dependents in CalPERS health benefits, and to determine if required dependent eligibility documentation was on file and properly completed. Our testing revealed that the City did not have employees complete a Declaration of Health Coverage form (HB-12A) for all changes made in regards | The City must ensure that the proper member and dependent enrollment documentation is on file at the City within 60 days from the date of our final report. Please send an email to: <i>HBB_Audit_Services@calpers.ca.gov</i> once the |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|--|---|---|
| <p>9. The City may not properly enroll eligible employees and their dependents in health benefits. (continued)</p> | <p>to health benefits subsequent to January 1, 1998.</p> <p>Page 12-01 of the Public Agency Health Benefits Procedure Manual states in part, that the HB-12A provides information on enrollment options and consequences for non-enrollment. The HB-12A 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, 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 Health Benefit Plan Enrollment (HBD-12) form. The employer also must provide the employee a copy of the signed form and keep the original in the employee's file.</p> | <p>requested documentation is on file. The CalPERS HBB may be contacted at (916) 795-3836 with any questions.</p> <p>A confidential list identifying the employees mentioned in this report has been sent to the City and CalPERS HBB as an appendix to our draft report.</p> |
| <p>10. The City may not contribute the appropriate health contribution amounts for active employees.</p> | <p>We reviewed the health contributions reported for January 2009. We determined that the City contributed the appropriate health contribution amount as part of the sampled members' total monthly premium amount.</p> | <p>None.</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|---|---|--|
| <p>11. The City may not remit health contributions within the required timeframe.</p> | <p>We reviewed the City's payments of health benefit contributions for the months of March 2008, January 2009 and June 2009 to determine if contributions were paid timely. The City provided a copy of the bank statements which showed the date the funds were withdrawn from their account by CalPERS. We determined that the City remitted health contribution payments on time for January 2009 and June 2009; however the March 2008 health contribution payment was submitted late on March 11, 2008.</p> <p>California Code of Regulations, §599.515(1), states, "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 City should ensure health contribution payments are forwarded to CalPERS no later than the 10th of each month for the month in which the contributions are due.</p> |
| <p>12. The City may not maintain appropriate ACES security procedures.</p> | <p>We reviewed the security procedures for the City's ACES users to determine if reasonable security precautions were maintained and to determine if the required security documents were properly completed and on file for ACES users. We determined that the City utilized appropriate ACES security procedures; however, the City had one employee who no longer required ACES access, but the City did not complete a <i>Delete ACES User Access</i> form and submit it to CalPERS.</p> <p>CalPERS ACES Security procedures outlined on the</p> | <p>The City should follow appropriate procedures to ensure the security of CalPERS ACES. <i>Delete ACES Users Access</i> forms should be completed timely and submitted to CalPERS for all employees who are no longer required ACES access.</p> <p>A confidential list identifying the employee mentioned in this</p> |

CITY OF SANTA MONICA

| RISK | MITIGATION & OBSERVATION | RECOMMENDATION |
|--|---|--|
| <p>12. The City may not maintain appropriate ACES security procedures. (continued)</p> | <p>CalPERS website at www.calpers.ca.gov require agencies to keep a signed copy of security documents on file for ACES users. An Employer User Security Agreement (AESD-43) and, if applicable, a delete ACES user access form (AESD-42) 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. CalPERS is to be notified immediately in the event that any of its sensitive or confidential information is subjected to unauthorized disclosure, modification or destruction.</p> | <p>report has been sent to the City and CalPERS ERSD as an appendix to our draft report.</p> |

CITY OF SANTA MONICA

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 City'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,

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

Date: February 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Carol Northrup
Chris Wall

APPENDIX A

STATUS OF PRIOR REVIEW

**FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF SANTA MONICA
EMPLOYER CODE 0054, PRIOR REVIEW P02-035**

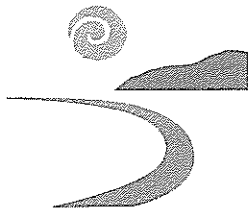
| Prior Review Finding | Prior Review Recommendation | Status of Recommendation |
|--|---|---|
| 1. Compensation reported incorrectly. | The City should stop reporting collateral duty pay, shorthand pay, typing pay, certificate pay, educational pay and executive administrative assistant incumbent pay. The City should begin reporting the correct amount of FLSA premium pay for firefighters and uniform allowances for all employees who have uniforms provided or receive uniform reimbursement. The City should also submit resolutions to CalPERS allowing the reporting of the value of EPMC. | All of the recommendations were implemented; however, the City reported several items of non-reportable compensation that was not reported in the previous review. |
| 2. Payroll reporting error. | The City should report the work schedule codes of 173 for firefighters who work an average 40-hour workweek. | Implemented. |
| 3. Employees not appropriately enrolled into membership. | Not properly enrolling temporary/part-time employees and not reporting earnings for temporary/part-time employees is a repeat finding from the prior audit. The City should continue monitoring the working hours of all temporary/part-time employees and the City should ensure that members are properly enrolled and earnings reported when they are eligible. | A similar issue was noted in the current review regarding employees with prior CalPERS membership not being enrolled, and the City did not monitor the hours worked by temporary/part-time employees hired through a temporary employment agency. |
| 4. Retired annuitants not properly reinstated. | The City should implement procedures to improve the monitoring of hours worked by retired annuitants in a calendar year. | Implemented. |

**FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF SANTA MONICA
EMPLOYER CODE 0054, PRIOR REVIEW P02-035**

| | | |
|--|--|---|
| <p>5. Industrial Disability determinations were not made timely.</p> | <p>The City should monitor the requirement for timely determinations of industrial disability retirement applicants. A waiver can be obtained from a member if a delay is anticipated.</p> | <p>A similar issue was noted in the current review.</p> |
| <p>6. Employees coverage group reported incorrectly.</p> | <p>The City should report members in the correct coverage group or amend their contract with CalPERS to change these positions to a safety classification.</p> | <p>Implemented.</p> |
| <p>Conclusion:</p> <p>The City had implemented the recommendations of the prior report dated February 2003; however, the City did not enroll temporary/part-time employees with prior CalPERS membership, and an Industrial disability determination was not made in the required six month time frame for one employee.</p> | | |

APPENDIX B

CITY'S WRITTEN RESPONSE



City of
Santa Monica®

Finance Department
1717 Fourth Street, Suite 250
Santa Monica, California 90401

December 6, 2010

Margaret Junker, CIA, CPA
Interim Chief Auditor
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Junker:

SUBJECT: Response to Draft Report of CalPERS Compliance Review

Following, please find the City of Santa Monica's response to the recommendations found in the draft report of your review of our compliance with the City's contract with CalPERS. We appreciate the opportunity to respond to your findings and did perform further research and conferred numerous times with CalPERS staff before submitting this response.

CalPERS Recommendation: The City should immediately discontinue reporting management incentive pay and floating holidays as compensation to CalPERS. Further, the City should stop reporting special compensation that is not included in a written labor policy or agreement

City Response: The City does not agree with this finding or recommendation. The City considers the professional/administrative incentive pay reported by the City to be consistent with all requirements for special compensation. The compensation meets all the criteria for special compensation outlined in California Code of Regulations Section 571(b); that is, the compensation is described in written labor agreement; the compensation is paid to all members in the bargaining unit; it is paid for normally required duties; duties are performed during normal hours of employment; it is paid periodically as earned; the payments have been made to all members of the bargaining unit since July 1, 2002; it is not paid as a final compensation item; it is not final settlement pay; and, it does not create an unfunded liability over and above CalPERS' actuarial assumptions. The City agrees that floating holiday pay should not be reported as compensation to CalPERS but the City has no record that floating holiday was reported as special compensation. The City does not report special compensation that has not been included in a written labor policy or agreement.

Response to Draft Report of CalPERS Agency Review

December 6, 2010

Page two

CalPERS Recommendation: The City should develop procedures to submit contributions in a timely manner to CalPERS

City Response: The City agrees and has procedures in place to submit contributions in a timely manner.

CalPERS Recommendation: The City should enroll employees who meet eligibility requirements by exceeding 1,000 hours in a fiscal year or through prior CalPERS membership. The City should review and monitor all hours worked in a fiscal year by all temporary/part-time employees and enroll those that meet membership eligibility criteria.

City Response: The City does not agree with the finding. The City does enroll employees who meet eligibility by exceeding 1,000 hours in any CalPERS reporting year, the reporting year being from the first bi-weekly pay period ending in July to the last bi-weekly pay period the following June. This process was approved as part of a prior CalPERS Agency Review and has been consistently applied.

CalPERS Recommendation: The City may not appropriately process industrial disability retirement determinations and appeals for safety members and should work with CalPERS BNSD to assess the impact of this late determination and determine what adjustments, if any, are needed.

City Response: The City agrees and has developed procedures to prevent late determinations.

CalPERS Recommendation: The City may not properly enroll eligible employees and their dependents in health benefits and should ensure that the proper member and dependent enrollment documentation is on file.

City Response: The City agrees and does ensure review of proper member and dependent enrollment documentation.

CalPERS Recommendation: The City should ensure health contribution payments are forwarded to CalPERS no later than the 10th of each month for the month in which the contributions are due.

City Response: The City agrees and has procedures in place to ensure that health contributions payments are forwarded to CalPERS no later than 10th of each month.

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CalPERS Recommendation: The City should follow appropriate procedures to ensure the security of CalPERS ACES.

City Response: The City agrees and follows appropriate procedures to ensure security.

If you have any questions about the City's response, please do not hesitate to contact me at (310) 458-8285. We would like to close this audit as quickly as possible.

Sincerely,

A handwritten signature in cursive script that reads "Candace Tysdal".

Candace Tysdal, CIA, CFE, CPA
Assistant Director of Finance

cc: Carol Swindell, Director of Finance, City of Santa Monica
Donna Peter, Director of Human Resources, City of Santa Monica