

Office of Audit Services



CalPERS

Public Agency Review

City of Bell Gardens

CalPERS ID: 2219960868
Job Number: SP15-013

April 2016



California Public Employees' Retirement System
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April 28, 2016

CalPERS ID: 2219960868
Job Number: SP15-013

Will Kaholokula, Director of Finance and Admin Services
City of Bell Gardens
7100 S. Garfield Avenue
Bell Gardens, CA 90201

Dear Mr. Kaholokula:

Enclosed is our final report on the results of the public agency review completed for the City of Bell Gardens (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report.

In accordance with our resolution policy, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your Agency. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief
Office of Audit Services

Enclosure

cc: Council Members, City of Bell Gardens
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Chief, EAMD, CalPERS
Carene Carolan, Chief, MAMD, CalPERS

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RESULTS IN BRIEF

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

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

- Pay schedule did not meet all of the requirements of the Government Code and CCR.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Retroactive salary adjustment was incorrectly reported.
- Observation: Agency records did not agree with my|CalPERS information.

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

SCOPE

The Agency contracted with CalPERS effective December 1, 1970 to provide retirement benefits for local miscellaneous and safety (police) employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and the Public Employees' Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's compliance with the PERL and its contract related to compensation and payroll reporting. Additionally, OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through June 30, 2014. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

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

Condition:

The Agency's pay schedule did not meet all of the Government Code and CCR requirements. Specifically, the Agency provided a budget resolution that established employee classifications and compensation as of July 1, 2013 that was approved by its governing body. However, the resolution did not qualify as a pay schedule since it did not indicate the time base for all positions, such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually.

Only compensation earnable as defined under Government Code Section 20636 and corresponding regulations can be reported to CalPERS and considered in calculating retirement benefits. For purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. Per CCR Section 570.5, a pay schedule, among other things, must:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws;
- Identify the position title for every employee position;
- Show the payrate as a single amount or multiple amounts within a range for each identified position;
- Indicate the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually;
- Be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's internet website;
- Indicate an effective date and date of any revisions;
- Be retained by the employer and available for public inspection for not less than five years; and
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the payrate definition and pay schedule requirements cannot be used to calculate retirement benefits because the amounts do not meet the definition of payrate under Government Code Section 20636(b)(1). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

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Recommendation:

The Agency should ensure it has a pay schedule that meets all of the Government Code and CCR requirements.

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

Criteria:

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

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2: The Agency did not report special compensation in accordance with the Government Code and CCR.

Condition:

- A. The Agency incorrectly reported special compensation in base payrate and regular earnings. Specifically, the Agency reported Acting Pay with base payrate and regular earnings for an Acting Public Works Supervisor in the pay period ended January 4, 2014. Acting Pay is defined in the Agency's written labor policy and meets the definition of special compensation in CCR Section 571. Therefore, Acting Pay should be reported as special compensation separately from payrate and regular earnings.
- B. The Agency incorrectly reported Uniform Allowance in lump sum amounts. Specifically, the Agency's written labor policy provides for an annual Uniform Allowance of \$1,000.00 for police employees. The Agency reported the Uniform Allowance as a semi-annual amount of \$500.00 in January and July instead of in the pay periods in which it was earned. Pursuant to Government Code Section 20636 (c)(3), the Agency shall identify the pay period(s) in which the special compensation was earned when reported to the Board.
- C. The Agency did not report the monetary value for the purchase of uniforms. Specifically, the Agency's written labor policy stated that public works employees would be provided with three sets of uniforms twice a year. However, the Agency did not report the monetary value for the purchase of the uniforms. Government Code and CCR require the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation for classic employees.
- D. The Agency's written labor policy for public works employees did not include the condition for payment of uniforms. Specifically, the written labor policy contained a provision for providing uniforms; however, it did not identify amounts. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the eligibility for, and amount of, the special compensation.

Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, special compensation is required to be contained in a written labor policy or agreement indicating the eligibility and amount of special compensation. Also, special compensation must be available to all members in the group or class, part of normally required duties, performed during normal hours of employment,

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paid periodically as earned, and historically consistent with prior payments for the job classification.

Recommendation:

The Agency should report special compensation separately from base payrate and regular earnings.

The Agency should ensure Uniform Allowance is reported in the pay period(s) earned for classic police employees.

The Agency should ensure it reports the monetary value for the purchase of uniforms for public work employees enrolled as classic members.

The Agency should ensure its written labor agreement include the conditions of payment for the purchase of uniforms.

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

Criteria:

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

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3: The Agency incorrectly reported a retroactive salary adjustment.

Condition:

The Agency reported an incorrect amount for a retroactive salary adjustment. Specifically, the Assistant City Manager received a salary increase from \$13,074.00 to \$13,728.00 per month that was approved on November 6, 2013 and effective as of July 10, 2013. The Agency reported a retroactive adjustment of \$2,263.88 for the pay periods from July 10, 2013 through October 26, 2013. However, the Agency should have reported a retroactive salary adjustment of \$2,339.34. As a result, the Agency under reported the retroactive salary adjustment by \$75.46.

Recommendation:

The Agency should ensure retroactive salary adjustments are correctly reported to CalPERS.

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

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20630, § 20636

CCR: § 571

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Observation: The Agency's records did not agree with my|CalPERS information.

Condition:

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

OAS identified four employees who had hire dates that were different from the hire dates in my|CalPERS. The hire dates in my|CalPERS were based on the contract effective date instead of the actual date of hire. OAS also identified eight individuals who had employment statuses that were different from the employment statuses in my|CalPERS. The Agency's records show that the employees have separated; however, the employees were not separated through my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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CONCLUSION

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

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

Respectfully submitted,

Original signed by Beliz Chappuie

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Senior Manager
Billy Vi, Auditor
Asraf Tootla, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

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

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

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

METHODOLOGY

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

- ✓ Reviewed:
 - Provisions of the contract and contract amendments between the Agency and CalPERS
 - Correspondence files maintained at CalPERS
 - Agency Board minutes and Agency Board resolutions
 - Agency written labor policies and agreements
 - Agency salary, wage, and benefit agreements including applicable resolutions
 - Agency personnel records and employee time records
 - Agency payroll information including Contribution Detail Transaction History reports
 - Documents related to employee payrate, special compensation, and benefits
 - Various other relevant documents
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency correctly reported compensation.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to Agency public salary records to determine whether base payrates reported were accurate, pursuant to publicly available pay schedules that identify the position title, payrate and time base for each position, and duly approved by the Agency's governing body in accordance with requirements of applicable public meetings laws.

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- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



CITY OF BELL GARDENS

7100 Garfield Ave, Bell Gardens, CA 90201
Phone: (562) 806-7700 Fax: (562) 806-7735

April 11, 2016

Beliz Chappuie, Chief
Office of Audit Services
California Public Employees Retirement System
P.O. Box 942701
Sacramento, CA 94229-2701

RE: *Response by City of Bell Gardens to CalPERS Public Agency Review*
CalPERS ID: 2219960868
Job Number: SP15-013

Dear Ms. Chappuie:

The City of Bell Gardens acknowledges receipt of the draft report Public Agency Review submitted by the Office of Audit Services on March 25, 2016. Below you will find the City's responses to the draft report:

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

Response to Finding 1: The City agrees that the July 1, 2013 council approved salary schedule did not explicitly state the time base for the salary amounts listed on the schedule. On a go forward basis, the City will update their pay schedules to include the time base for the amounts posted which are monthly, and the City will ensure the salary schedule is in compliance with Government Code Section 20636 and CCR Section 570.5.

Finding 2: The Agency did not report special compensation in accordance with Government Code and CCR.

Response to Finding 2: The City agrees that certain special compensation were not reported correctly. The City will correct its processes on a go forward basis and will work with CalPERS Employer Account Management Division to comply with CCR Section 571 to determine appropriate course of action.

Finding 3: The Agency incorrectly reported a retroactive salary adjustment.

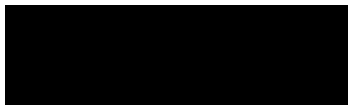
Response to Finding 3: The City agrees that a retroactive salary adjustment was under reported by \$75.46. The City will work with CalPERS Employer Account Management Division and make the appropriate adjustments.

Observation: The Agency's records did not agree with my|CalPERS information.

Response to Observation: The City has noted the observations made by CalPERS and will review its internal records to verify this information and make the appropriate adjustments as necessary.

Thank you in advance for taking the time to review our responses. Please feel free to contact the City for any further questions or information.

Respectfully submitted,



Original signed by Will Kaholokula

Will Kaholokula
Director of Finance/Administrative Services