

Office of Audit Services



CalPERS

Public Agency Review

City of Coronado

CalPERS ID: 1057970246
Job Number: P14-071

February 2016



California Public Employees' Retirement System
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February 26, 2016

CalPERS ID: 1057970246
Job Number: P14-071

James Krueger, Director of Administrative Services
City of Coronado
1825 Strand Way
Coronado, CA 92118-3099

Dear Mr. Krueger:

Enclosed is our final report on the results of the public agency review completed for the City of Coronado (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 and 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: City Council Members, City of Coronado
Emad Gewaily, Finance Manager, City of Coronado
Amy Reeve, Human Resources Manager, City of Coronado
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 Coronado (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), California Code of Regulations (CCR), and its contract with the California Public Employees' Retirement System (CalPERS).

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

- Pay schedule did not meet all of the requirements of the Government Code and CCR.
- Special compensation was not reported as required by CCR Section 571.
- Retroactive salary adjustments were incorrectly reported.
- Member reciprocal self-certification was not maintained.

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 January 1, 1949 to provide retirement benefits for local miscellaneous and local safety (fire and 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 payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from January 1, 2012 through December 31, 2014. 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 effective July 15, 2014 did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule did not list the payrate for the City Manager position.

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 its pay schedule meets all of the Government Code and CCR requirements.

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

Criteria:

Government Codes: § 20160, § 20636

CCR: § 570.5

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

Condition:

- A. The Agency did not report Fair Labor Standards Act (FLSA) premium pay as special compensation. Specifically, the Agency did not report FLSA premium pay for fire safety employees who worked 24-hour shifts. The fire safety employees work an average of 56 hours per week, and are paid a premium when they work more than 212 hours in a 28-day period. The premium paid for hours worked above 212, and up to the normal scheduled hours is reportable to CalPERS as special compensation. The normal hours will vary depending on the number of shifts scheduled in a 28-day period. Any work performed above the normal scheduled hours would be considered overtime and would not be reported. Government Code Section 20636(c)(6) and CCR Section 571(a) states that premium pay for hours worked within the normally scheduled or regular working hours that are in excess of the maximum work week or period established by FLSA are to be reported as special compensation.
- B. The Agency incorrectly reported special compensation as a lump sum amount instead of when earned. Specifically, the Agency reported an annual Uniform Allowance of \$825.00 for fire safety employees and \$850.00 for police safety employees in the pay period ended August 8, 2014. In addition, the Agency reported a semi-annual Off-Salary-Schedule payment of \$887.81 for the Finance Manager in the pay period ended December 12, 2014. Government Code Section 20636(c)(3) requires the Agency to identify the pay period(s) in which special compensation was earned.
- C. The Agency did not report the monetary value for the purchase, rental and/or maintenance of uniforms for classic miscellaneous employees who worked in the Public Services Department. Depending on the Department, the uniforms were either purchased by the Agency or provided and cleaned by a third party vendor. However, the Agency did not report the monetary value of uniforms and the maintenance of the required clothing. Government Code Section 20636 and CCR Section 571(a)(5) require compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation for classic employees.

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- D. The Agency's written labor policy for Public Services Department employees did not include the condition for payments of uniforms. Specifically, the written labor policy contained a provision for providing and cleaning uniforms; however, it did not identify uniform amounts. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, eligibility for, and amount of, the special compensation.
- E. The Agency incorrectly reported special compensation in base payrate and regular earnings. Specifically, the Agency reported Holiday-in-Lieu Pay with base payrate and regular earnings for police and fire safety employees. The Agency reported an additional five percent for police safety employees and 4.8 percent for fire safety employees as part of base payrate and regular earnings in the pay period ended November 14, 2014. Holiday Pay, a statutory item, is exclusively listed in CCR Section 571 as additional compensation for employees who are normally required to work on approved holidays because they work in positions that require scheduled staffing without regard to holidays. Therefore, Holiday-in-Lieu Pay should be reported as special compensation, separately from payrate and regular earnings.
- F. The Agency incorrectly calculated Holiday Pay and Investigator Pay for police safety employees. The Agency's written labor policy states that these special compensation items will be calculated using base payrate. However, the Agency used the base payrate plus other special compensation amounts to calculate the Holiday Pay and Investigator Pay. As a result, the Agency over reported the special compensation to CalPERS.

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

Recommendation:

The Agency should ensure that the FLSA Premium Pay is reported as special compensation.

The Agency should ensure that special compensation is reported for the pay period earned.

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The Agency should report the monetary value for the purchase, rental, and/or maintenance of required clothing for classic members.

The Agency should indicate the monetary value of employer-provided uniforms and the maintenance of uniforms in a written labor policy or agreement as required by CCR Section 571.

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

The Agency should report amounts of special compensation in accordance with the Agency's written labor agreement.

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 retroactive salary adjustments.

Condition:

The Agency incorrectly reported retroactive salary adjustments. Specifically:

- A. The Agency approved a merit increase for a Recreation Coordinator from \$22.14 per hour to \$23.24 per hour on December 5, 2013 retroactive to January 12, 2013. Although the Agency correctly reported the retroactive salary adjustment for the period earned, the Agency incorrectly reported an hourly payrate of \$4,026.53 instead of \$23.24.
- B. The Agency also approved a five percent merit increase for a Police Officer on August 21, 2012 that was retroactive to February 25, 2012. The Agency reported total regular earnings of \$2,198.01 for the period February 25, 2012 through August 10, 2012. However, the regular earnings reported included special compensation of \$116.56. Special compensation should be reported separately from regular earnings.
- C. The Agency reported overtime of \$268.26 with regular earnings when reporting the retroactive salary adjustment described in Finding 3B. Pursuant to Government Code Section 20635, compensation for hours worked above an employee's regular work schedule is overtime and is not reportable compensation.

Recommendation:

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

The Agency should report the correct rate of pay and should not report special compensation combined with regular earnings.

The Agency should ensure that compensation for overtime is not reported to CalPERS.

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

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Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20630 § 20635, § 20636
CCR: § 571

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

Condition:

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

Recommendation:

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

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

Criteria:

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

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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
Alan Feblowitz, CFE, Senior Manager
Dennis Szeto, Auditor
Billy Vi, 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 enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the Agency's employment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when unlawful employment occurs.
- ✓ Reviewed the Agency's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the Agency's affiliated entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide additional service credits for unused sick leave.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



ADMINISTRATIVE SERVICES

1825 STRAND WAY
CORONADO, CA 92118

CITY HALL
(619) 522-7300

February 16, 2016

Ms. Beliz Chappuie, Chief
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Chappuie:

This letter is the City of Coronado's response to the findings identified in the CalPERS' Office of Audit Services draft report on compliance review regarding the City's contract with the California Public Employees' Retirement System dated January 28, 2016.

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

Agency Response: We believe that our agency has met the requirements associated with the Government Code and California Code of Regulations (CCR) requirements for reporting. However, we are ready to work with the Employer Account Management Division (EAMD) in order to identify or make any adjustments if necessary. We understand that the EAMD will consider any needed changes on a prospective basis and ask that we be given consideration for this approach to any needed pay schedule changes.

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

2A: The Agency did not report Fair Labor Standards Act (FLSA) premium pay as special compensation

Agency Response: Although we agree that during the test period of the audit that there were instances of the aforementioned condition, we are uncertain of the extent to which we should implement a corrective action for this finding and seek guidance from the EAMD to help ascertain the necessary scope of our review of past history.

2B: The Agency incorrectly reported special compensation as a lump sum amount instead of when earned.

Agency Response: Although we agree that during the test period of the audit that there were instances of the aforementioned condition, we are uncertain of the extent to which we should implement a corrective action for this finding and seek guidance from the EAMD to help ascertain the necessary scope of our review of past history.

2C: The Agency did not report the monetary value for the purchase, rental and/or maintenance of uniforms for classic miscellaneous employees who worked in the Public Services Department.

Agency Response: Although we agree that during the test period of the audit that there were instances of the aforementioned condition, we are uncertain of the extent to which we should implement a corrective action for this finding and seek guidance from the EAMD to help ascertain the necessary scope of our review of past history.

2D: The Agency's written labor policy for Public Services Department employees did not include the condition for payments of uniforms.

Agency Response: Although we agree that during the test period of the audit that there were instances of the aforementioned condition, we are uncertain of the extent to which we should implement a corrective action for this finding. In particular we are not able to change the agreement with AFSCME without commencing a meet and confer with this bargaining unit.

2E: The Agency incorrectly reported special compensation in base payrate and regular earnings.

Agency Response: We agree with this finding and will make efforts to start compliance immediately, but desire guidance from EAMD regarding the extent to which we will be required to look back in order to resolve this for past reporting periods.

2F: The Agency incorrectly calculated Holiday Pay and Investigator Pay for police safety employees.

Agency Response: We agree with this finding and will make efforts to start compliance immediately, but desire guidance from EAMD regarding the extent to which we will be required to look back in order to resolve this for past reporting periods.

Audit finding 3: The Agency incorrectly reported retroactive salary adjustments.

3A: The Agency approved a merit increase for a Recreation Coordinator from \$22.14 per hour to \$23.24 per hour on December 5, 2013 retroactive to January 12, 2013.

Agency Response: We agree with this finding and will make efforts to start compliance immediately, but desire guidance from EAMD regarding the extent to which we will be required to look back in order to resolve this for past reporting periods.

3B: The Agency approved a 5% merit increase for a Police Officer on August 21, 2012 that was retroactive to February 25, 2012.

Agency Response: We agree with this finding and will make efforts to start compliance immediately, but desire guidance from EAMD regarding the extent to which we will be required to look back in order to resolve this for past reporting periods.

3C: The Agency reported overtime of \$268.26 with regular earnings when reporting the retroactive salary adjustment described in 3B.

Agency Response: We agree with this finding and will make efforts to start compliance immediately, but desire guidance from EAMD regarding the extent to which we will be required to look back in order to resolve this for past reporting periods.

Audit finding 4: The Agency did not maintain the required member reciprocal self-certification.

Agency Response: We believe that we are in compliance with the associated requirement identified in this audit finding.

Please feel free to contact me at (619) 522-7309 or jkrueger@coronaco.ca.us if you have any question or need additional information.

Sincerely,



Original signed by James Krueger

James Krueger
Director of Administrative Services

cc: Blair King, City Manager
Emad Gewaily, Finance Manager
Amy Reeve, Human Resources Manager