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August 12, 2011

Employer Code: 0225
Job Number: P10-007

City of Covina
Anthony Arroyo, Human Resources Director
125 East College Street
City of Covina, CA 91723

Dear Mr. Arroyo:

Enclosed is our final report on the results of the public agency review completed for the City of Covina. Your agency's written response indicates disagreement with three of the nine issues noted in the report. However, based on the criteria and facts we obtained, our recommendations remain as stated in our 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. The written response is included as an appendix to the 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 Council Members, City of Covina

Office of Audit Services



Public Agency Review

City of Covina

Employer Code: 0225
Job Number: P10-007

August 2011

CITY OF COVINA

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RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the City of Covina's (City) 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:

- Compensation earnable was not reported.
- Non reportable compensation was reported.
- Payroll information was not reported timely.
- Eligible temporary/part-time employee was not enrolled into CalPERS membership timely.
- Retired annuitants did not meet bona fide separation requirement and a retired annuitant was not reinstated in a timely manner.
- Industrial disability retirement determination was not made in a timely manner.
- Unused sick leave balances were incorrectly reported.
- Eligibility verification for dependents enrolled in CalPERS Health Benefits Program was not provided.
- Required Automated Communications Exchange System (ACES) user security agreement forms were not maintained.

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 City and CalPERS Customer Account Services Division (CASD), Benefits Services Division (BNSD), and Health Account Services (HAS) as an appendix to this draft report.

CITY BACKGROUND

The City was incorporated in 1901 as a general law city. The City operates under a council form of government and provides a broad range of services to its citizens, including general government, public safety, sanitation and health, park facilities and social services. Memoranda of Understanding (MOUs) 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 January 1, 1949, to provide retirement benefits for local safety and miscellaneous employees. The City's

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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, 1994, to provide health benefits to all eligible employees.

SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the City's payroll reporting and member enrollment processes as these processes relate to the City'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 July 26, 2010 through July 29, 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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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The City did not report compensation earnable for the value of uniforms and uniform maintenance.

Recommendations:

The City should ensure the monetary value for the purchase and/or maintenance of uniforms is reported for all employees required to wear a uniform.

The City should work with CalPERS CASD to assess the impact of and to correct this non-reporting issue.

Conditions:

The MOU between the City and the American Federation of State, County and Municipal Employees, (AFSCME), Sections 12.0.4.1 and 12.0.4.2, state that the City will provide uniforms for field employees in accordance with City policy and specific departmental and safety needs. OAS determined that AFSCME represented employees received uniforms and uniform maintenance benefits during the review period. However, the City did not report to CalPERS the monetary value for the purchase and/or maintenance of uniforms provided. The value of uniforms and uniform maintenance provided to employees required to wear a uniform should be reported to CalPERS as special compensation.

Criteria:

Government Code § 20636(c)(6)
California Code of Regulations § 571(a)(5)

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Finding 2: The City erroneously reported non-reportable compensation to CalPERS in the form of meeting pay, auto allowance and the value of employee paid member contributions.

Recommendations:

The City should discontinue reporting non-reportable compensation to CalPERS.

The City should work with CalPERS CASD to assess the impact of and correct this misreporting and determine what adjustments are needed.

Conditions:

Meeting pay

OAS reviewed two documents listing elected officials' compensation as \$400 per month: City Ordinance No. 88-1667 and an inter-office memorandum dated March 3, 1999. In addition, City Council members receive a \$30 meeting payment for each meeting served as a member on the Covina Redevelopment Agency Board. OAS found that the City incorrectly reported the additional meeting pay as earnings to CalPERS. Payroll detail showed that the reported earnings and payrate for a City Council member fluctuated from \$430 to \$490 per month during the review period. However, as outlined in City Ordinance No. 88-1667, the elected official's pay should have been reported as \$400 per month. The additional meeting payments for serving on another board did not meet the definition of reportable compensation and should not have been reported to CalPERS.

Auto allowance

The City erroneously reported car allowance as earnings for one sampled employee. Specifically, in service period 5/10-4, the City incorrectly added a \$275 auto allowance to the earnings and payrate reported to CalPERS, reporting a monthly payrate of \$11,021.29 instead of earnings based on a payrate of \$10,746.29. Auto allowance does not meet the definition of reportable compensation and thus, is not reportable to CalPERS.

The value of employee paid contributions

The City erroneously reported the value of employee contributions as earnings for one sampled employee. Specifically, in service period 5/10-4, the City

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incorrectly added \$1,163.77 (the value of employee contributions) to the earnings and payrate reported to CalPERS for the employee, reporting a monthly payrate of \$17,788.77 instead of reporting earnings based on the actual payrate of \$16,625.00. The payrate stated in the employee contract and personnel action form was \$16,625.00.

Criteria:

Government Code § 20635, 20636(b)(1), 20636(c)(1), § 20636(c)(5), 20636(c)(6)
California Code of Regulations § 571(a)

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Finding 3: The City did not report payroll information within the required timeframe.

Recommendations:

The City should develop procedures to ensure that payroll contribution payments are submitted timely.

The City should work with CalPERS CASD to assess the impact of this late reporting and determine what adjustments, if any, are needed.

Conditions:

OAS reviewed payroll information for service periods 7/05-3, 5/10-4, 11/08-0, and 4/10-4, to determine whether the City submitted payroll information within the required timeframes. Payroll information consists of CalPERS summary reports, listing reports and contribution payments. The required timeframe to submit summary and listing reports to CalPERS is no later than 30 days after the close of the pay period. Contributions must be paid within 15 days of the close of the pay period. OAS testing revealed the following:

- Service Period 7/09-3: Retirement contributions, due by July 18, 2009, were paid late on July 23, 2009. The summary report was submitted timely on July 20, 2009.
- Service Period 5/10-4: Retirement contributions, due by June 5, 2010, were paid late on June 23, 2010. The summary report was submitted timely on June 16, 2010.
- Service Period 11/08-0: Retirement contributions due by December 15, 2008, were paid late on February 24, 2009. The summary report was submitted timely on December 22, 2008.
- Service Period 4/10-4: Retirement contributions, due by March 23, 2010, were paid late on June 4, 2010. The summary report was submitted timely on May 25, 2010.

Criteria:

California Code of Regulations § 565

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Finding 4: The City did not enroll an eligible temporary part-time employee into CalPERS membership or report earnings to CalPERS in a timely manner.

Recommendations:

The City should review temporary/part-time employees for prior CalPERS membership and enroll eligible employees into CalPERS membership.

The City should work with CalPERS CASD to assess the impact of not enrolling eligible employees timely and determine what adjustments, if any, are needed.

Conditions:

OAS reviewed the hours worked for a sample of ten temporary/part-time employees during fiscal years 2008/2009 and 2009/2010 to determine whether they met membership eligibility requirements, and, if so, were timely enrolled into CalPERS membership. Sample testing revealed that one temporary/part-time employee, who worked for the City in fiscal year 2008/2009, had prior CalPERS membership; however the City did not enroll the member or report the member's earnings to CalPERS.

Criteria:

Government Code § 20305

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Finding 5: The City unlawfully employed retired annuitants who did not meet bona fide separation requirements and who exceeded 960 hours worked in a fiscal year.

Recommendations:

The City should not hire retired annuitants until after they meet the bona fide separation requirement.

The City should also review all hours worked by all retired annuitants and reinstate those that exceed the 960-hour criteria.

The City should work with CalPERS BNSD assess the impact of this unlawful employment and determine what adjustments, if any, are needed.

Conditions:

OAS reviewed five retired annuitants to determine whether the bona fide separation from employment requirement was met. Two of the five retired annuitants did not have a bona fide separation from employment before working with the City. Specifically, one retiree worked for the City in both a safety and a miscellaneous classification. Therefore, the miscellaneous normal retirement age of 55 would be applicable for bona fide separation from employment purposes. The employee retired on October 2, 2008, at age 50, below the normal retirement age, and thus required a bona fide separation from employment. However, the retiree immediately returned to work as a retired annuitant, working a total of 123 hours in October 2008.

A second retired annuitant had worked for multiple cities in miscellaneous classifications and entered into an employment agreement with the City on September 1, 2009, while still employed with another CalPERS employer. The employee separated from the other employer effective September 17, 2009, and began working for the City as Finance Director. While working at the City, the employee filed for retirement with a retroactive date of September 18, 2009, at age 53, below the normal retirement age for miscellaneous employees, thus requiring a 60 day bona fide separation. However, the 60 day requirement was not met as the employee retired effective September 18, 2009. In addition, the City did not timely reinstate the retired annuitant into CalPERS membership once the retiree exceeded the 960-hour threshold. The City did not keep a record of the actual hours worked; however, the City provided a written statement indicating that the retiree exceeded that 960-hour threshold by working 1,295

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hours in fiscal year 2009/2010. Records obtained at the City documents that the City paid the retiree \$6,153.85 bi-weekly, or \$13,333.34 per month beginning with pay period ending September 28, 2009 through pay period ending July 5, 2010 during fiscal year 2009/2010. According to City staff, the Director of Finance is available during the normal City hours, which consists of 40 hours per week.

Criteria:

Government Code § 21220.5, § 21224(a)
California Code of Regulations § 586.1, § 586.2

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Finding 6: The City did not make an industrial disability retirement determination within the required timeframe.

Recommendations:

The City should determine, within six months of the request from CalPERS, whether local safety members are incapacitated for the performance of duty.

The City should work with CalPERS BNSD to assess the impact of this untimely industrial disability retirement determination and determine what adjustments, if any, are needed.

Conditions:

OAS reviewed a sample of two safety employees that applied for industrial disability retirement during the review period. OAS found that the City did not make its determination within six months of CalPERS' request for industrial disability determination for one member. On February 13, 2008, CalPERS notified the City that the member filed an application for industrial disability retirement and requested the City make its disability determination within six months. The disability determination for this member found on the City's Resolution No. 08-6682 dated August 19, 2008, was not received by CalPERS until August 25, 2008, which exceeded the required six month time frame.

Criteria:

Government Code § 21157

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Finding 7: The City did not accurately certify unused sick leave balances for retiring CalPERS members.

Recommendations:

The City should ensure that retiring members' unused sick leave balance is properly reported to CalPERS.

The City should work with CalPERS BNSD to determine the impact of this incorrect reporting and determine what adjustments, if any, are needed.

Conditions:

The City's contract with CalPERS indicates that the City elected the optional provision of Government Code Section 20965, credit for unused sick leave. OAS reviewed sick leave balances for six sampled employees that retired during the review period to determine whether the City accurately certified the individuals' unused sick leave balances for additional service credit.

The unused sick leave balances for the sampled employees were properly computed using a divisor of eight to convert hours to days. However, the City incorrectly reported to CalPERS the unused sick leave balances of two sampled employees. Specifically, one employee's unused sick leave balance was under-reported by 8.38 days and the other employee's unused sick leave balance was over-reported by 102.03 days.

Criteria:

Government Code § 20965

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Finding 8: The City did not provide eligibility verifications for dependents enrolled in CalPERS Health Benefits Program and did not maintain required health forms on file.

Recommendations:

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 the final report. Please send an email to: HBB_Audit_Service@calpers.ca.gov once the requested documentation is on file. The CalPERS HAS may be contacted at (916) 795-3836 with any questions.

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

Conditions:

OAS reviewed a sample of 13 employees to assess the health benefits eligibility and enrollment of members and their dependents. Sample testing revealed that the City had not properly enrolled individuals in CalPERS Health Benefits Program. OAS was unable to ascertain that enrollments for individuals were proper because the City did not provide required documentation such as marriage certificates and various dependent child documents. Specifically, the following exceptions were noted:

- The City did not provide a marriage certificate supporting the enrollment of three employees' spouses.
- The City did not provide birth certificates verifying the eligibility of 14 dependent children enrolled under five members' health benefits.
- The City did not provide and maintain on file a required Affidavit of Eligibility for an economically dependent child.

Criteria:

Government Code § 20085, § 22775
California Code of Regulations § 599.500 (k) and (n)

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Finding 9: The City did not maintain appropriate ACES security procedures.

Recommendations:

The City should follow appropriate procedures to ensure the security of CalPERS ACES. Employer User Security Agreement (AESD-43) forms should be timely completed and retained in a secure worksite location for the life of the Agreements and for two years following the deactivation or termination of the Agreement.

The City should work with CalPERS CASD to assess the impact, if any, of this lack of documentation.

Conditions:

OAS reviewed the security procedures for the City's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users. OAS determined the City maintained reasonable password security precautions for ACES users. However, the City did not properly maintain AESD-43 forms for employees who utilized the ACES reporting system, or Delete "ACES User Access" (AESD-42) forms for employees no longer requiring ACES access.

Specifically, AESD-43 forms for four employees ACES could not be located. Also, AESD-42 forms for six employees no longer using ACES could not be located.

During onsite field work, the City completed and filed new AESD-43 and AESD-42 forms for all individuals noted above.

Criteria:

CalPERS ACES User Guide, page 107

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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 City'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: August 2011
Staff: Michael Dutil, CIA, Senior Manager
Jacque Conway, CPA, CIA, Manager
Jodi Epperson
Jose Martinez

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APPENDIX A

BACKGROUND

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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.

CalPERS Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. CalPERS Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. Health Account Services (HAS), 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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APPENDIX B

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the City 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 City's retirement and health benefits contracts with CalPERS were followed.

This review covers the period of period July 1, 2007 through June 30, 2010. OAS completed a prior review covering the period of July 1, 1994 to June 30, 1997.

SUMMARY

Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives OAS interviewed key staff to obtain an understanding of the City's personnel and payroll procedures. OAS also reviewed the following documentation:

- Contracts and contract amendments between the City and CalPERS
- Correspondence files maintained at CalPERS
- City Council minutes and City Council resolutions
- City written labor policies and agreements
- City salary, wage and benefit agreements including applicable resolutions
- City personnel records and employee hours worked records
- City payroll information including Summary Reports and PERS listings
- Other documents used to specify payrate, special compensation and benefits for all employees
- Health Benefits Program enrollment records and supporting documentation
- City ordinances as necessary
- Various other documents as necessary

OAS performed the following procedures. A description and the related sample sizes, sample periods and applicable findings for each procedure are included.

- ✓ Reviewed City payroll records and compared the records to data reported to CalPERS to determine whether the City correctly reported employees' compensation.

Sample size and period: Reviewed 21 employees covering two sampled service periods - the first service period in July 2009 (7/09-3), and the second service period in May 2010 (5/10-4).

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See Finding 1: The City did not report compensation earnable for the value of uniforms and uniform maintenance.

See Finding 2: The City erroneously reported non-reportable compensation to CalPERS in the form of meeting pay, auto allowance and the value of employee paid member contributions.

- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to the City's 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 City's governing body in accordance with requirements of applicable public meeting laws.

Sample size and period: Reviewed 21 sampled employees in the second service period in May 2010 (5/10-4).

No Finding

- ✓ Reviewed Payroll information reports to determine whether the City submitted payroll information within the required timeframes.

Sample size and period: Reviewed four sampled service periods within the review period: the first service period in July 2009 (7/09-3), the second service period in May 2010, (5/10-4), the monthly service period in November 2008 (11/08-0) and the second service period in April 2010 (4/10-4).

See Finding 3: Payroll information was not reported within the required time frames.

- ✓ Reviewed PERS listing reports to determine whether payroll reporting elements were reported correctly.

Sample size and period: Reviewed 21 sampled employees in the second service period in May 2011(5/10-4).

No Finding

- ✓ Reviewed the City's enrollment practices pertaining to optional members, temporary/part-time employees, retired annuitants, and independent contractors to determine whether individuals met CalPERS membership requirements.

Optional member sample size and period: Reviewed records for two elected officials during review period.

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No Finding

Temporary/part-time employees sample size and period: Reviewed ten temporary/part-time employees that worked for the City in fiscal years 2008/2009 and 2009/2010.

See Finding 4: The City did not enroll an eligible temporary/part-time employee into CalPERS membership or report the earnings to CalPERS in a timely manner.

Retired annuitants sample size and period: Reviewed five retired annuitants that worked for the City during the review period.

See Finding 5: The City employed two retired annuitants who did not meet bona fide separation requirements and did not timely reinstate a retired annuitant who exceeded 960 hours worked in a fiscal year.

Independent Contractor sample size and period: Reviewed records for nine independent contractors who worked for the City during calendar years 2008 and 2009.

No Finding

- ✓ Reviewed the City's industrial disability retirement (IDR) process to determine whether the City made IDR determinations in the required timeframe.

Sample size and period: Reviewed two employees that filed for IDR during the review period.

See Finding 6: The City did not make an industrial disability retirement determination within the required timeframe.

- ✓ Reviewed the City's calculation and reporting of unused sick leave balances.

Sample size and period: Reviewed six members that retired during the review period.

See Finding 7: The City did not accurately certify unused sick leave balances for two retiring CalPERS members.

- ✓ Reviewed health records to determine whether the City properly enrolled eligible employees into CalPERS Health Benefits Program.

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Sample size and period: Reviewed records of 13 employees to assess the health benefits and enrollment eligibility.

See Finding 8: The City did not provide eligibility verification for dependents enrolled in CalPERS Health Benefits Program and did not maintain required health forms on file.

- ✓ Reviewed the security procedures for the City's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users.

Sample size and period: Reviewed records for ten ACES users with access to the ACES system within the review period.

See Finding 9: The City did not maintain appropriate ACES security procedures.

APPENDIX C

CRITERIA

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CRITERIA

Government Code § 20085, subdivision, states:

(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.

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

An employee whose appointment or employment contract does not fix a term of full-time, continuous employment in excess of six months is excluded from this system unless:

(1) He or she is a member at the time he or she renders that services and is not otherwise excluded pursuant to this article of by a provision of a contract.

Government Code § 20635, states:

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.

If a member concurrently renders service in two or more positions, one or more of which is full time, service in the part-time position shall constitute overtime. If two or more positions are permanent and full time, the position

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with the highest payrate or base pay shall be reported to this system. This provision shall apply only to service rendered on or after July 1, 1994.

Government Code § 20636, subdivision (b)(1), states:

“Payrate” means the normal monthly rated 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.

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

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)(5), states:

The monetary value of any service or noncash advantage furnished by the employer to the member, except as expressly and specifically provided in this part, is not special compensation unless regulations promulgated by the board specifically determine that value to be “special compensation.”

Government Code § 20636, subdivision (c)(6), states:

The board shall promulgate regulations that delineate more specifically and exclusively what constitutes “special compensation” as used in this section. A uniform allowance, the monetary value of employer-provided uniforms... shall be included as special compensation.

Government Code § 20965, states:

A local miscellaneous member and a local safety member whose effective date of retirement is within four months of separation...shall be credited at his or her retirement with 0.004 year of service credit for each unused day of sick leave certified to the board by his or her employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member’s retirement benefit. Reports of unused days of sick leave shall be subject to audit and retirement benefits may be adjusted where improper reporting is found.

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.

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Government Code § 21220.5, states:

A retired person who has not attained the normal retirement age shall have a bona fide separation in service to the extent required by the Internal Revenue Code, and the regulations promulgated thereunder, before working after retirement pursuant to this article. The board shall establish, by regulation, the criteria under which a bona fide separation is satisfied.

Government Code § 21224, subdivision (a), states:

A retired person may serve without reinstatement from retirement or loss of interruption of benefits provided by this system upon appointment by the appointing power of a state agency or public agency employer either during an emergency to prevent stoppage of public business or because the retired employee has skills needed in performing work of limited duration. These appointments shall not exceed a total for all employers of 960 hours in any fiscal year.

Government Code § 22775, states:

“Family member” means an employee’s or annuitant’s spouse or domestic partner and any child, including an adopted child, a stepchild, or recognized natural child.

California Code of Regulations § 565, states:

Member and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer.

California Code of Regulations § 571, provides a list that exclusively identifies and defines special compensation items for members employed by a contracting agency and standards to which compensation must conform in order for items of special compensation to be used to calculate final compensation for an individual member.

California Code or Regulation § 571, subdivision (a), exclusively identifies and defines special compensation items. This regulation does not include car allowance as items of special compensation.

California Code of Regulations § 571, subdivision (a)(5), states:

Uniform Allowance - Compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing...which is a ready substitute for personal attire the employee would otherwise have to acquire and maintain. This excludes items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes.

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California Code of Regulations § 586.2, states:

(a) For purposes of working for a CalPERS-covered employer after retirement...a member who has not attained normal retirement age shall have a bona fide separation in service. A bona fide separation in service is defined as:

- (1) no predetermined agreement between the employer and the member prior to retirement to return to work for the employer after retirement; and
- (2) a separation in service of at least 60 calendar days between the date of the member's retirement and the first day of work for the employer as a retired person. The 60 days shall commence on the day after retirement.

California Code of Regulations § 599.500, states:

(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.

CalPERS ACES User Guide procedures, page 107, require agencies to keep a signed copy of security documents on file for ACES users. An Employer User Security Agreement (AESD-43) form must be completed for each employee using CalPERS on-line access and be available to CalPERS upon request. For all ACES users who no longer need ACES access, A Delete "ACES User Access" (AESD 42) form must be immediately filled out, electronically submitted and a copy maintained. 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.

APPENDIX D

STATUS OF PRIOR REVIEW

**FOLLOW UP ON PRIOR REVIEW FINDINGS
CITY OF COVINA EMPLOYER CODE 0225
PRIOR REVIEW P7-030, DATED NOVEMBER 1998**

<i>Prior Review Finding</i>	<i>Prior Review Recommendation</i>	<i>Status of Prior Recommendation</i>
1. Elected officials not offered membership	The City should inform all elected City officials of their option to enroll into CalPERS membership. The City should document when elected officials are given this option.	Implemented.
2. Eligible employees not properly enrolled	The City should establish procedures to ensure that all temporary and part-time employees who work over 1,000 hours in a fiscal year and qualify for membership are properly enrolled. The City should also establish procedures to identify whether new employees are already CalPERS members and if they are report their earnings.	Not implemented, similar observation was noted during the review. Eligible employees were not enrolled in a timely manner.
3. Retired annuitant not reinstated	The City should review the payroll records for all retired annuitants employed during the review period and reinstate any retired annuitant that worked 960 hours or more in the fiscal year.	Not implemented, similar observation was noted during the review. Two retired annuitants working for the City did not meet bona fide separation requirements.

Conclusion: The City did not implement all of the recommendations of the prior review.

CITY OF COVINA

APPENDIX E

CITY'S WRITTEN RESPONSE



CITY OF COVINA

125 East College Street • Covina, California 91723-2199

July 14, 2011

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

Re: Public Agency Review (Employer Code 0225; Job Number P10-007)

Thank you for the time in preparing the Public Agency Review document. This letter is in response to the Public Agency Review received by the City of Covina on July 11, 2011. Below is the city's response to the Review's findings:

Finding 1: Agree

Shortly after the audit was complete, the City made the corrections retroactive to July 1, 2010. The corrections are in place for the proper earnings to be reported at the start of every fiscal year.

Finding 2: See notes below

Meeting Pay: Payroll staff was instructed by Jeremy Sazaki to include earnings and payments for elected officials. City staff will await final findings from your office.

Auto Allowance: The employee's personnel action form will be corrected so that auto allowance is not included in the monthly pay rate.

Value of Employee Paid Contributions: The employee's personnel action form will be corrected to show the correct monthly pay rate of \$16,625.00.

Finding 3: Agree

Corrections have been made to assure payroll information is submitted in a timely manner.

Finding 4: Agree

Payroll staff will verify prior PERS enrollment.

Finding 5: Disagree

_____ was employed by the City of Covina as a part-time Police Aide from November 8, 1977 to January 26, 1979. Then rehired on September 6, 1982 to January 20, 1984 as a Police Officer Reserve. He then worked as a Police Officer from January 20, 1984 to August 30, 1995. He left the city to work elsewhere where he medically retired but did not retire from PERS. He returned to Covina on January 3, 2005 to work as a part-time Background Investigator. Upon turning 50 years of age, he retired from PERS while still employed on a part-time basis with Covina.

_____ The hours referenced in the report state _____ worked 1,120 hours as of March 2010. Assuming an average of eight (8) hours per day from September 2009 through December 2009 and a nine (9) hour average from January 2010 through June 2010 (the city went from a 9/80 to 4/10 starting on January 4, 2010), the hours worked would be 1,295. Assuming the same average as previously noted, the total hours worked through March 2010 would be 846 hours (see attached spreadsheet). The City of Covina is of the opinion that the hours stated in the report need to be recalculated. Copies of _____ invoice are included in this response for your review. Additionally, _____ reinstated himself into PERS in 2010.

Finding 6: Disagree

The city never received a letter or other notification that _____ had applied for disability retirement. The only letter the city received was notifying the city that the disability retirement had been approved.

Finding 7: Agree

The unused sick leave for the two former employees will have to be corrected and may reflect a change to their pensions.

Finding 8: Agree

The City of Covina Human Resources Department will assure proper documentation is received by all employees and verify enrolled dependents.

Finding 9: Agree

This was corrected in July 2010 when the auditor was here.

The City of Covina is in agreement with six of the nine findings. In some cases, corrections have already been made or will be made pending the final outcome of the report. The City of Covina kindly requests your office to review invoices and recalculate the hours worked.

We appreciated Mr. Jose Martinez's time with the city as we saw this as a learning opportunity to correct any errors that were brought to the city's attention. Mr. Martinez was very cordial and responsive to the city's inquiries. We look forward to your response.

Sincerely,



Anthony Arroyo
Director of Human Resources

Enclosure: Invoices from Municipal Budget and Finance Specialists LLC

Calculation of Hours Worked for

(Finding 5)

Month	# of Days Worked	Avg. Hours per day	Total
Sep-10	7	8	56
Oct-10	18	8	144
Nov-10	13	8	104
Dec-10	16	8	128
Jan-11	13	9	117
Feb-11	16	9	144
Mar-11	17	9	153
Apr-11	17	9	153
May-11	15	9	135
Jun-11	18	9	162
TOTAL			1296