

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Delano**

**CalPERS ID: 5693481127**  
**Job Number: P13-023**

**September 2014**



California Public Employees' Retirement System  
Office of Audit Services  
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Sacramento, CA 94229-2701  
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September 19, 2014

CalPERS ID: 5693481127  
Job Number: P13-023

Sylvia Bermudez, Assistant Finance Director  
City of Delano  
P.O. Box 3010  
Delano, CA 93216

Dear Ms. Bermudez:

Enclosed is our final report on the results of the public agency review completed for the City of Delano (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 Phyllis Miller  
PHYLLIS MILLER, Acting Chief  
Office of Audit Services

Enclosure

cc: Board, City of Delano  
Rosa Lara Rios, Finance Director, City of Delano  
Risk and Audit Committee Members, CalPERS  
Matthew G. Jacobs, General Counsel, CalPERS  
Anthony Suine, Chief, BNSD, CalPERS  
Renee Ostrander, Assistant Chief, CASD, CalPERS

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## RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Delano (Agency) complied with applicable sections of the California Government Code, 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.

- Special compensation was not reported as required by CCR Section 571.
- Member Contributions were incorrectly reported.
- Payroll information was incorrectly reported.

There were no issues identified related to employees in our sample subject to the Public Employees' Pension Reform Act of 2013 (PEPRA).

OAS recommends the Agency comply with applicable sections of the California Government Code, 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 June 25, 2005 to provide retirement benefits for police employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and by 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 Board approved plan for fiscal year 2013-14, the OAS reviewed the Agency's payroll reporting and member enrollment processes as related to the Agency's retirement contract with CalPERS. The review period was limited to the examination of sampled employees, records, and pay periods from July 1, 2011 through June 30, 2013. The on-site fieldwork for this review was conducted November 18-22, 2013. The review objectives and a summary of the procedures performed are listed in Appendix A.

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency did not report special compensation as required by the CCR.

***Condition:***

- A. The Agency incorrectly reported Holiday Pay, a statutory item of special compensation, as a lump sum instead of as earned. The Agency's written labor policy allows Police Officers to bank and cash out holiday hours in June of each year. The Agency reported an employee cashed out 92 holiday hours equaling \$2,691.00 in May 2013 instead of when the Holiday Pay was earned.
- B. The Agency incorrectly reported Uniform Allowance, a statutory item of special compensation. The Agency's written labor policy provides for a monthly Uniform Allowance of \$60.00. However, the Agency incorrectly reported the Uniform Allowance on a semi-annual basis instead of in the period in which it was earned.

Pursuant to Government Code Section 20636 (c)(3), the Agency shall identify the pay period in which the special compensation was earned.

***Recommendation:***

The Agency should ensure it correctly reports special compensation in the pay period earned.

The Agency should work with Customer Account Services Division (CASD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

***Criteria:***

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

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**2:** The Agency incorrectly paid member contributions.

***Condition:***

The Agency incorrectly paid and reported member contributions for an employee. Although paying member contributions by an employer is statutorily allowed, the amount paid must be same for a group or class. The Agency's Police Chief's employment agreement effective July 1, 2012 through June 30, 2015 specified that the Agency would pay 100 percent of the employee's nine percent member contributions. The Police Chief was the only employee for which the Agency paid and reported nine percent as Employer Paid Member Contributions (EPMC). The Agency's next closest group or class of employees was the Police Management Group. The Agency paid and reported six percent EPMC for this group of employees and required those employees to pay three percent, which was reported as member contributions. Government Code Section 20691 specifies that if an individual is not part of a group or class then the payment shall be limited to the amount that the Board determines is payable to similarly situated members in the closest related group or class. Therefore, the Agency should have limited the EPMC provided to the Police Chief to six percent, the amount given to the closest group or class of employees.

***Recommendation:***

The Agency should conform to the "group or class" requirements in Government Code Section 20691 when paying member contributions for their employees.

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

***Criteria:***

Government Codes: § 20160, § 20691

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**3:** The Agency incorrectly reported payroll information

***Condition:***

The Agency reported an incorrect pay code type. Pay code type is a two digit numeric code which designates the wage base on which a member is paid. The Agency reported an incorrect pay code type of hourly when reporting a retroactive salary adjustment for an employee with a monthly payrate of \$3,422.00 for the pay periods ending February 10, 2012 through March 9, 2012. As a result, the payrate reported was overstated. Payrate is an important factor in computing a member's retirement allowance because service credit and final compensation are directly related to the payrate and earnings reported for a member.

***Recommendation:***

The Agency should ensure it reports the correct pay code type when reporting retroactive salary adjustments.

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

***Criteria:***

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

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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 A. OAS limited the test of transactions to employee samples selected from the Agency's payroll 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. 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, California Code of Regulations.

Respectfully submitted,

Original signed by Phyllis Miller

PHYLLIS MILLER, CPA, CIA

Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Diana Thomas, CIA, CIDA, Manager  
Alan Feblowitz, CFE, Manager  
Chris Wall, Manager  
Nuntawan Camyre, Auditor  
Jose Martinez, Auditor  
Mike Obad, Auditor



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# **APPENDIX A**

## **OBJECTIVES**

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## OBJECTIVES

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

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

## SUMMARY

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 hours worked records
  - Agency payroll information including Contribution Detail Transaction History reports
  - Other documents used to specify payrate, special compensation, and benefits for employees
  - Various other documents as necessary
- ✓ 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 meeting laws.
- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.

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- ✓ 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 960 hours were worked in a fiscal year.
- ✓ 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 entities to determine if the Agency shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Agency or by the affiliated entity.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

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# **APPENDIX B**

## **AGENCY RESPONSE**



CITY HALL  
1015 ELEVENTH AVENUE  
POST OFFICE BOX 3010

DELANO, CALIFORNIA 93216-3010

(661) 721-3300  
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COUNCIL MEMBERS

Grace Vallejo  
MAYOR

Rueben Pascual  
MAYOR PRO TEM

Liz Morris  
Ricardo Chavez  
Joe Aguirre

CITY MANAGER  
Maribel Reyna

VIA EMAIL AND U.S. MAIL

September 12, 2014

Phyllis Miller  
Acting Chief of Audit Services  
California Public Employees' Retirement System  
P.O. Box 942701  
Sacramento, CA 94229-2701

**Re: City of Delano, CalPERS Job Number P13-023**

Dear Ms Miller:

The City of Delano received your letter dated August 5, 2014, providing CalPERS's draft report on its compliance review of the City's contract with CalPERS.

We agree to comply with the report's recommendations.

If you have any questions, please contact me at [sbermudez@cityofdelano.org](mailto:sbermudez@cityofdelano.org), (661) 721-3310.

Sincerely,

Sylvia Bermudez  
Assistant Finance Director, City of Delano

cc: Nuntawan Camyre (email only)  
Rosa Lara Rios, Finance Director, City of Delano