

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Dos Palos**

**CalPERS ID: 2028048688**  
**Job Number: P14-051**

**June 2015**



California Public Employees' Retirement System  
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June 26, 2015

CalPERS ID: 2028048688  
Job Number: P14-051

Manuela Sousa, Director of Finance  
City of Dos Palos  
2174 Blossom Street  
Dos Palos, CA 93620

Dear Ms. Sousa:

Enclosed is our final report on the results of the public agency review completed for the City of Dos Palos (Agency). Your written response, included as an appendix to the report, does not dispute the issue 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 Young Hamilton

YOUNG HAMILTON, Acting Chief  
Office of Audit Services

Enclosure

cc: Honorable City Council Members, City of Dos Palos  
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 primary objective of our review was to determine whether the City of Dos Palos (Agency) complied with applicable sections of the California 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 CCR.
- Special compensation was not reported as required.
- Payrates were incorrectly reported.
- Member reciprocal self-certification was not maintained.
- Unused sick leave was incorrectly reported.

OAS recommends the Agency comply with applicable sections of the California 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 employees, and later amended the contract to provide retirement benefits for 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 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 2014-15, the OAS reviewed the Agency's payroll reporting and member enrollment processes 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, 2014. 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's pay schedule did not meet all of the Government Code and CCR requirements.

***Condition:***

The Agency did not maintain a pay schedule that met all of the Government Code and CCR requirements. Specifically, the Agency did not have a Board approved pay schedule that showed the position title for every employee position. OAS found that multiple Memorandum of Understandings (MOU) and employment contracts listed payrates and were Board approved, with the exception of a Dispatch Supervisor.

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 special compensation of Holiday Pay earned by two employees who worked on a holiday during the pay period ending May 31, 2014. The employees were required to work without regard to holidays and received additional compensation. However, the additional compensation of Holiday Pay was not reported to CalPERS. Holiday Pay is a statutory item and should have been reported to CalPERS as special compensation per Government Code Section 20636(c)(6) and CCR Section 571.
- B. The Agency did not report the monetary value of uniforms provided for Public Works and Utilities employees. The monetary value of uniforms is also a statutory item and should be reported to CalPERS for classic CalPERS members as special compensation per Government Code Section 20636(c)(6) and CCR Section 571.
- C. The Agency did not include the conditions for payment of the uniforms discussed above in a written labor policy. Specifically, the Agency's MOUs did not identify an amount of the special compensation as required by CCR Section 571 (b).
- D. The Agency incorrectly reported special compensation with regular earnings. Specifically, the Agency reported Uniform Allowance and Peace Officer Standard Training (POST) Certificate Pay for sworn police employees with regular earnings during the pay period ending May 31, 2014.
- E. The Agency did not report special compensation of Shift Differential Pay earned by an employee during the pay period ending May 31, 2014. Shift Differential Pay meets the requirements of CCR Section 571; and therefore should be reported as special compensation.

Reportable special compensation is exclusively listed and defined in CCR Section 571. Reportable special compensation is required to be contained in a written labor policy or agreement indicating the eligibility for 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. In addition, special compensation must not be paid exclusively in the final compensation period and not be final settlement pay.

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***Recommendation:***

The Agency should ensure Holiday Pay, the monetary value of uniforms and Shift Differential Pay are reported as special compensation.

The Agency should ensure to indicate the conditions for payment of special compensation in a written labor policy or agreement.

The Agency should report special compensation separately from regular earnings.

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 payrates.

***Condition:***

- A. The Agency reported a payrate (and corresponding earnings) that exceeded the maximum payrate listed in the MOU. The Agency approved a four percent salary increase for the Director of Safety increasing the monthly payrate to \$6,061.00. However, the maximum payrate listed in the Board approved MOU was \$5,828.00.
- B. The Agency reported an incorrect payrate for an employee in the pay period ending August 31, 2013. Specifically, the Agency reported an hourly payrate of \$2,914.00. However, the employee's hourly payrate during this period was \$33.62.

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 report correct payrates and earnings to CalPERS in accordance with an approved pay schedule.

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, § 20636  
CCR: § 570.5

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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 reciprocal self-certification for an 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 individual.

***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: § 20120, § 20121, § 20128, § 20160, § 7522.02, § 7522.04  
CCR: § 579.3

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**5:** The Agency reported an incorrect unused sick leave balance.

***Condition:***

The Agency over reported the number of unused sick days for a retiring employee. Specifically, the Agency reported 39 days of unused sick leave to CalPERS for a retiring member who cashed out 25 percent of unused sick leave upon retirement. The Agency stated its policy is to reduce sick leave to zero for any cash outs made by employees within the Dos Palos Miscellaneous Employee Association bargaining group. When the retiring employee cashed out 25 percent of unused sick leave, the balance of unused sick leave was reduced to zero in the Agency's payroll records. However, the Agency reported 39 days of unused sick leave to CalPERS. Unused sick leave days increases the employee's service credit which results in an increase to retirement allowance.

***Recommendation:***

The Agency should ensure the correct amount of unused sick leave for retiring members is reported to CalPERS.

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

***Criteria:***

Government Codes: § 20160, § 20965

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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. 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Young Hamilton

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YOUNG HAMILTON, CPA, CIA, CISA  
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Alan Feblowitz, CFE, Senior Manager  
Dennis Szeto, 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.), California Public Employees' Pension Reform Act of 2013 (PEPRA) 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.

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."

This review did not include an assessment as to whether the Agency is a "public agency," and expresses no opinion or finding with respect to whether the Agency is a public agency or whether its employees are employed by a public agency.

## 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.

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- ✓ 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.
- ✓ 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 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**





THE CITY OF  
**Dos Palos**

CITY HALL -- 2174 BLOSSOM STREET  
DOS PALOS, CALIFORNIA 93620  
PHONE (209) 392-2174  
FAX (209) 392-2801

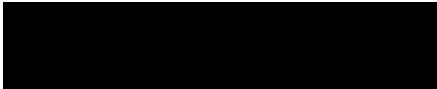
May 28, 2015

California Public Employees' Retirement System  
P.O. Box 942701  
Sacramento, Ca 94229

Dear Ms. Hamilton:

I have reviewed the draft report. I do not agree with all the recommendations, but they have been explained to me and I will work with CalPERS to make the necessary corrections. Please let this serve as an acceptance of your recommendations.

Thank You,



Original signed by Manuela Sousa

Manuela Sousa  
Director of Finance  
City of Dos Palos