

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Fremont**

**CalPERS ID: 2378859287**  
**Job Number: BI15-013**

**April 2016**



California Public Employees' Retirement System  
Office of Audit Services  
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April 28, 2016

CalPERS ID: 2378859287  
Job Number: BI15-013

Alan Demers, Deputy Human Resources Manager  
City of Fremont  
P.O. Box 5006  
Human Resources Department  
Fremont, CA 94537-5006

Dear Mr. Demers:

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

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

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief  
Office of Audit Services

Enclosure

cc: City Council Members, City of Fremont  
Lisa Velasco, Human Resources Manager, City of Fremont  
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 Fremont (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 finding during the review. Details are noted in the Results section beginning on page two of this report.

- Payrates were incorrectly reported.

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 April 1, 1958 to provide retirement benefits for local miscellaneous and local safety employees (police and fire). By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and the Public Employees' Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's compliance with the PERL and its contract related to compensation and payroll reporting. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through October 31, 2015. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

**1:** The Agency incorrectly reported payrates in a retiree's final compensation period.

***Condition:***

The Agency reported an incorrect payrate for a Fire Captain who retired on November 17, 2013. Specifically, the Agency reported an hourly payrate of \$42.28 during the pay periods July 14, 2013 through November 2, 2013. However, the Fire Captain's hourly payrate for these pay periods was \$43.55.

OAS reviewed the potential impact of the reporting error and determined the incorrect reporting could have understated the retirement allowance by approximately \$92.46 per month, or approximately \$1,109.46 per year, if CalPERS calculated the member's final compensation using the payrates reported during the 12-month period prior to the member's retirement. However, CalPERS records show the member's retirement allowance was automatically calculated through my|CalPERS using a different 12-month period of July 17, 2011 through July 16, 2012. CalPERS needs timely and accurate payrate and compensation in order to correctly calculate an employee's service credit and final compensation for retirement benefits.

***Recommendation:***

The Agency should work with CalPERS Employer Account Management Division (EAMD) to correct the payrates reported from July 14, 2013 through November 2, 2013. The Agency should also work with EAMD to ensure all payrates and compensation, including special compensation was reported in accordance with the Government Code and CCR. As a result of any changes, CalPERS Benefit Services Division should recalculate compensation earnable reported during the two 12-month periods mentioned above to ensure the member receives the appropriate retirement allowance.

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

***Criteria:***

Government Code: § 20120, § 20121, § 20122, § 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 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

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Alan Feblowitz, CFE, Senior Manager  
Alicia Watts, Manager  
Emma Shaw, Auditor  
Michelle O'Connor, CPA, Auditor

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**CITY OF FREMONT**

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# **APPENDIX A**

## **OBJECTIVES**

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## OBJECTIVES

The objectives of this review were limited to determine whether member information was accurate and the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting procedure 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 written labor policies and agreements
  - Agency salary, wage, and benefit agreements including applicable resolutions
  - Agency personnel records and employee time records
  - Agency payroll information
  - CalPERS payroll reports
  - Documents related to employee payrate 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 payroll information reported to CalPERS and reconciled payroll records, personnel records, pay schedules, and written labor policies to determine whether the Agency correctly reported scheduled work hours, whether service credit was accurate, and whether retirement benefits were correct.



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# **APPENDIX B**

## **AGENCY'S WRITTEN RESPONSE**



*Human Resources Department*

3300 Capitol Avenue, Building B | P.O. Box 5006, Fremont, CA 94537-5006

510 494-4660 *ph* | [www.fremont.gov](http://www.fremont.gov)

April 13, 2016

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

Dear Ms. Chappuie:

The purpose of this letter is to acknowledge receipt of your April 5, 2016 letter enclosing a draft report on the CalPERS payroll audit of the City of Fremont for compliance with the contract for pension benefits. I have reviewed the report as has our Human Resources Manager of Benefits and Payroll, Lisa Velasco. The City of Fremont agrees with the findings and recommendations in the report.

Once the audit report is final, Lisa Velasco will contact the CalPERS Employer Account Management Division to correct the pay rates as indicated in Finding 1 of the report.

We appreciate your staff identifying the discrepancy and will strive to ensure this type of error does not occur in the future. If you have any questions concerning this matter, please contact me at (510) 494-4660.

Sincerely,

A large black rectangular redaction box covering the signature of Allen DeMers.

Original signed by Allen DeMers

Allen DeMers  
Deputy Director of Human Resources

cc: Brian Stott, Deputy City Manager  
Lisa Velasco, Human Resources Manager – Benefits & Payroll

