

Office of Audit Services



CalPERS

Public Agency Review

City of Fullerton

CalPERS ID: 3608564961
Job Number: BI15-004

February 2016



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

February 29, 2016

CalPERS ID: 3608564961
Job Number: BI15-004

Julia James, Director of Administrative Services
City of Fullerton
303 W. Commonwealth Avenue
Fullerton, CA 92832-1775

Dear Ms. James:

Enclosed is our final report on the results of the public agency review completed for the City of Fullerton (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 Fullerton
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 Fullerton (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.

- Scheduled work hours 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 July 1, 1946 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 scheduled work hours.

Condition:

The Agency incorrectly reported the number of scheduled full-time work hours for a fire safety employee. By misreporting the number of scheduled full-time work hours, the employee's monthly retirement allowance could be overstated by as much as 40 percent.

OAS reviewed the Fire Battalion Chief's payroll information reported for the Fiscal Year 2013-14. The Agency reported the Fire Battalion Chief on an hourly basis and identified scheduled full-time hours as 56 per week. However, the Fire Battalion Chief's normal full-time work schedule during this period was 40 hours per week. The Agency explained it did not report the change in the Fire Battalion Chief's scheduled work hours when he switched from a 56 hour per week to a 40 hour per week work schedule. Based on the Agency records OAS obtained, this change went back to at least May of 2012, but could have been earlier.

If the Fire Battalion Chief had retired at the end of June 2014, the monthly retirement could have been overstated by as much as 40 percent. The Fire Battalion Chief's hourly payrate reported to CalPERS from July 2013 through March 2014 was \$74.20 and increased to \$82.80 per hour in April 2014. To determine the Fire Battalion Chief's estimated one year final compensation, the hourly payrates would be multiplied by 56 hours to reach an estimated one year final compensation amount of \$222,331.20. The annual amount would convert to an estimated average of \$18,527.60 per month. However, the Fire Battalion Chief worked 40 hours per week, not 56 hours. Using the correct full-time work schedule of 40 hours, the Fire Battalion Chief's estimated one year final compensation amount would have been \$158,808.00, or \$13,234.00 per month. The final compensation amount would then be used in determining the Fire Battalion Chief's monthly retirement allowance. In the event the Fire Battalion Chief retired after June 2014, and had reached 30 years of service, the monthly retirement allowance would have been overstated by approximately \$4,764.24. Therefore, reporting accurate payroll information is essential in calculating correct member benefits at retirement.

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Reporting an incorrect number of scheduled full-time work hours may cause the following:

- Delays in member retirement processing
- Inaccurate retirement estimates
- Increased work for the Agency and CalPERS to correct inaccurate reporting
- Incorrect payments of benefits
- Hardship to retired members from a reduction in benefits

Recommendation:

The Agency should ensure the correct number of scheduled full time work hours are reported for all employees.

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

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20630

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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
Alicia Watts, Lead Auditor
Emma Shaw, Auditor

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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



CITY OF FULLERTON

Administrative Services Department

Administration (714) 738-6521
Fiscal Services (714) 738-6881
Information Technology (714) 738-6538
Purchasing (714) 738-6535

February 18, 2016

CalPERS, Office of Audits
Beliz Chappuie
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Mr. Chappuie,

We acknowledge receipt of CalPERS' compliance review draft report for the City of Fullerton and agree with the recommendations in the report.

Human Resources and the Payroll division are committed to cross checking and verifying any future scheduling changes to ensure that the correct number of scheduled full time work hours are reported for all employees. As these types of scheduling changes rarely occur, we are confident that this situation will not happen in the future.

We have verified that all current employees are being reported correctly and will work with CalPERS to make any necessary adjustments to retired member accounts identified in the draft report.

Sincerely,

A black rectangular redaction box covering the signature area.

Original signed by Julia James

Julia James
Director of Administrative Services

THE EDUCATION COMMUNITY

303 West Commonwealth Avenue, Fullerton, California 92832-1775
Fax (714) 738-3168 • Web Site: www.cityoffullerton.com