



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (916) 795-3240
(916) 795-0900 phone, (916) 795-4023 fax
www.calpers.ca.gov

October 8, 2012

Employer Code: 0097
CalPERS ID: 4840650877
Job Number: P10-024

City of Huntington Beach
Lori Ann Farrell, Finance Director
2000 Main Street
Huntington Beach, CA 92648

Dear Ms. Farrell:

Enclosed is our final report on the results of the public agency review completed for the City of Huntington Beach. Your agency's July 30, 2012 written response indicates agreement with the issues noted in the report. Subsequent to this response, an additional finding pertaining to the City's pay schedule not identifying the position and payrate for every employee position was found (see Finding 4). Your agency provided a second written response on September 20, 2012, which disagreed with this finding. Based on the information contained in your agency's second response pertaining to this finding, our recommendation remains as stated in the report. Both written responses are included as an appendix to 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 Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, BNSD, CalPERS
Rand Anderson, Acting Chief, APSD, CERBT
Jennifer McGrath, City Attorney, City of Huntington Beach
Michele Warren, Human Resources Director, City of Huntington Beach
Carol Molina-Espinoza, Budget Manager, City of Huntington Beach
Brigitte Charles, Principal Human Resources Analyst, City of Huntington Beach
Laurie Hill, Senior Payroll Technician, City of Huntington Beach
Honorable City Council Members, City of Huntington Beach

Office of Audit Services



Public Agency Review

City of Huntington Beach

Employer Code: 0097
Job Number: P10-024

October 2012

CITY OF HUNTINGTON BEACH

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
City Background.....	1
Scope.....	2
Office of Audit Services Review Results	3
Finding 1: Non-Reportable Compensation	3
Finding 2: FLSA Premium Pay.....	6
Finding 3: Payrate and Regular Earnings	7
Finding 4: Pay Schedules.....	9
Finding 5: Special Compensation.....	10
Finding 6: Temporary/Part-time Employees	11
Finding 7: California Employer’s Retiree Benefit Trust.....	12
Conclusion	13
CalPERS Background.....	Appendix A
Objectives	Appendix B
City’s Written Response.....	Appendix C

CITY OF HUNTINGTON BEACH

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the City of Huntington Beach's (City) enrolled individuals, member compensation, required health, retirement, and California Employers' Retiree Benefit Trust (CERBT) 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:

- Non-reportable compensation was incorrectly reported as holiday pay for police management and police officer employees.
- FLSA premium pay was over-reported for firefighters.
- Retroactive salary increases were incorrectly reported for a director during the final compensation period. In addition, payrate and earnings were incorrectly reported for one employee serving in an acting position.
- The payrate for the position of City Administrator was not included on the City's publicly available pay schedules.
- Items for personal health and safety were incorrectly included when reporting the value of uniforms. In addition, the value of uniforms was not reported for one employee.
- Temporary/part-time employees were not enrolled in CalPERS membership.
- The participant data used in the City's OPEB Valuation was not consistent with the City's records and CalPERS records used to identify participant information.

CITY BACKGROUND

The City of Huntington Beach was incorporated as a Charter City in 1909. The City has a Council-Administrator form of government and is a full service City. Memoranda of Understanding (MOU) 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 October 1, 1945, to provide retirement benefits for local safety fire fighters, local safety police officers, local safety ocean beach lifeguards, and employees other than local safety members (local miscellaneous members). The City's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The City contracted with CalPERS effective July 1, 2004, to provide health benefits to all eligible employees within the following groups: Police Officer Association, Police Management Association, Marine Safety Officers, Fire Management Association, and the Chief of Police. The City contracted with CalPERS to participate in the CERBT effective March 13, 2008.

CITY OF HUNTINGTON BEACH

All contracting public agencies, including the City, are responsible for the following:

- Determining CalPERS membership eligibility for its employees.
- Enrolling employees into CalPERS upon meeting membership eligibility criteria.
- Enrolling employees in the appropriate membership category.
- Establishing the payrates for its employees.
- Approving and adopting all compensation through its governing body in accordance with requirements of applicable public meeting laws.
- Publishing all employees' payrates in a publicly available pay schedule.
- Identifying and reporting compensation during the period it was earned.
- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.
- Notifying CalPERS when employees meet Internal Revenue Code annual compensation limits.
- Ensuring the employment of a retired annuitant is lawful and reinstating retired annuitants that work more than 960 hours in a fiscal year.
- Ensuring only eligible members and their dependents are enrolled for health coverage.
- Keeping accurate and up to date records of all health enrollment related information such as enrollment forms, parent-child relationship affidavits, divorce decrees, and other documentation.

SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the City's payroll reporting, member enrollment, payment records, and participant data processes, as these processes relate to the City's retirement, health, and CERBT 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 November 8, 2010, through November 10, 2010, November 16, 2010, through November 19, 2010, and December 6, 2010, through December 9, 2010. The review objectives and a summary of the procedures performed are listed in Appendix B.

CITY OF HUNTINGTON BEACH

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The City incorrectly reported non-reportable compensation as special compensation to CalPERS.

Recommendations:

The City should discontinue reporting non-reportable Holiday and Holiday Shift Differential pay to CalPERS.

CalPERS CASD has determined that the compensation is not reportable and therefore, not allowed in the calculation of retirement benefits for the City's retiring members. However, due to an appeal filed with the Court of Appeals, CalPERS has delayed the implementation of adjustments pending conclusion of the case.

OAS recommends CASD ensures the City reports compensation earnable in accordance with Government Code 20636. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160 upon conclusion of the case.

Condition:

The City incorrectly reported non-reportable Holiday Premium Pay and Holiday Shift Differential Pay as compensation for employees in the Police Management Association and Police Officer's Association.

Police Management Association (PMA) - Holiday Pay

The City over-reported Holiday Pay for one sampled police management employee in the 12/09-4 service period. Specifically, the police management employee (Lieutenant) was paid non-reportable Holiday Premium Pay in addition to eight hours of Holiday Pay. OAS found that a sampled police lieutenant worked a holiday during the pay period ending December 25, 2009 and received eight hours of Holiday Pay, which was properly reported to CalPERS. However, the sampled employee also received 11.42 hours Holiday Premium Pay for the same holiday, which was erroneously reported to CalPERS. The 11.42 hours of Holiday Premium Pay was not reportable since it was in addition to the Holiday Pay already reported in recognition of the City's authorized holidays and was considered overtime pay.

CITY OF HUNTINGTON BEACH

Police Officers' Association (POA) - Holiday Pay

The MOU for the Police Officers' Association stated "Holiday Pay - Employees represented by the Association and actively employed by the City, in addition to other compensation, shall be paid each biweekly payroll one twenty-sixth (1/26) of the total eighty (80) holiday hours earned for the year." OAS found the City correctly reported the Holiday Pay as special compensation each biweekly payroll for the sampled police officers during the sampled service periods. The MOU also stated, "Holidays Worked - Employees who work on a recognized City holiday shall be compensated at their overtime rate for time actually worked from 12:00 a.m. through 11:59 p.m." A sampled police officer required to work a holiday in service period 11/09-3 was paid 3.07 hours of Holiday Pay as specified in the MOU in recognition of the 80 holiday hours earned each year. The City correctly reported the Holiday Pay as special compensation. However, in addition to the Holiday Pay, the police officer was paid Holiday Premium Pay in the amount of \$545.99 which was calculated at an overtime rate for the 11.42 hours worked. The City incorrectly reported the extra Holiday Premium Pay as special compensation. The Holiday Premium Pay was considered overtime pay and therefore, not reportable compensation.

Holiday Pay is a reportable item of special compensation. The extra Holiday Premium Pay, which is in addition to Holiday Pay, is not reportable to CalPERS.

Holiday Shift Differential Pay – Police Officers' Association and Police Management Association

The Police Officers' Association MOU side letter dated March 1, 2010, stated, "Holidays Worked - Employees who work on a recognized City holiday shall be compensated Shift Differential Pay. Holiday Shift Differential Pay is available to all members of the HBPOA that are regularly scheduled to work on a recognized holiday. Members shall receive Shift Differential Pay equal to fifty percent (50%) of their regular rate of pay for all time actually worked from 12:00 a.m. through 11:59 p.m. on the recognized holiday." The Police Management Association side letter dated May 17, 2010, stated, "All holiday pay shall be reported as Shift Differential Pay when required in accordance with CalPERS law. Holiday Shift Differential Pay is available to all members of the HBPMA that are required to work a recognized holiday."

OAS determined the City incorrectly reported the Holiday Shift Differential Pay for two sampled employees (one police lieutenant and one police officer) who worked on a holiday, as part of their regular schedule, during service period 6/10-3. One lieutenant received eight hours of Holiday Pay and also received 10 hours Shift Differential Pay at the one-half time rate (per the City's rate calculation). One police officer received 3.07 hours of Holiday Pay, as specified

CITY OF HUNTINGTON BEACH

in the MOU in recognition of the 80 holiday hours earned each year, and also received 10 hours Shift Differential Pay at the one-half time rate (per the City's rate calculation). The City correctly reported the Holiday Pay for the two employees as special compensation. However, the City incorrectly reported the Shift Differential Pay as special compensation. The Shift Differential Pay was not reportable since it was in addition to the Holiday Pay already reported in recognition of the City's holidays and did not meet the definition of Shift Differential Pay in accordance with the California Code of Regulations Section 571(a)(4), which defines Shift Differential as "Compensation to employees who are routinely and consistently scheduled to work other than a standard 'daytime' shift, e.g. graveyard shift, swing shift, shift change, rotating shift, split shift or weekends." In addition, Shift Differential Pay was already listed separately in the Police Officers' Association MOU under Article VII, Section D.

Criteria:

Government Code: § 20160, § 20630(b), § 20635, § 20636(a), § 20636(c)(2), § 20636(c)(6)

California Code of Regulations: § 571(a)(4), § 571(a)(5)

CITY OF HUNTINGTON BEACH

Finding 2: The City over-reported FLSA premium pay due to incorrectly calculating the FLSA hours and premium rate of pay.

Recommendation:

The City should ensure that FLSA premium pay is correctly calculated and reported to CalPERS for fire shift employees.

OAS recommends CASD ensure the City properly calculate and report FLSA premium pay. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Condition:

The firefighters' FLSA work period was 15 days. The firefighters were scheduled to be on duty for five 24-hour periods (120 hours) within the 15 day work period. OAS found the City incorrectly calculated and over-reported FLSA premium pay for two sampled firefighters during the service periods reviewed (12/09-4 and 6/10-4).

Specifically, the FLSA threshold for a 15 day work period is 114 hours; however, the City incorrectly calculated the FLSA premium rate of pay based on a threshold of 110 hours. As a result, the City paid and incorrectly reported 9.33 hours of FLSA premium pay each pay period. The City should have reported six hours of FLSA premium pay instead of 9.33 hours. In addition, the City incorrectly calculated the FLSA premium rate by compounding special compensation, which resulted in an overstated FLSA hourly rate.

Criteria:

Government Code: § 20160, § 20630 (b), § 20636 (c)(6)

California Code of Regulations: § 571(a)(5); § 571(b)

CITY OF HUNTINGTON BEACH

Finding 3: The City incorrectly reported retroactive salary increases and payrate and earnings.

Recommendation:

The City should ensure retroactive salary increases are reported correctly and the authorized payrate is reported in the service period in which the compensation was earned.

The City should ensure the payrate and earnings for each position held by employees, are reported as separate line items to CalPERS.

OAS recommends CASD work with the City to properly report payrates to CalPERS. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Conditions:

Retroactive Salary Increases Incorrectly Reported

The City incorrectly reported two retroactive salary increases for one sampled director, resulting in an over-reported payrate during the final compensation period. Specifically, on July 24, 2009, the director received two retroactive salary increases, a 5.20 percent increase effective January 10, 2009, and a 5.21 percent increase effective July 11, 2009. However, the City incorrectly reported both retroactive salary increases effective service period 1/09-4 with a monthly payrate of \$16,080.13.

The City should have reported the January 10, 2009 retroactive salary increase effective service period 1/09-3 with a monthly payrate of \$15,241.20. Secondly, the City should have reported the July 11, 2009 retroactive salary increase effective service period 7/09-3 with a monthly payrate of \$16,080.13. The director retired effective December 31, 2009. As a result of the incorrect reporting, the director's payrate was over-reported during the final compensation period.

CalPERS Procedures Manual, page 110, entitled "Retroactive Salary Adjustment" states, in part, "A single contribution code 05 or 15 may be used to report a retroactive salary adjustment covering previous service periods. The service period should reflect the earliest service period involved in the adjustment. The transaction should have the member's new payrate and the total additional earnings and contributions for the period; i.e., report the

CITY OF HUNTINGTON BEACH

difference in earnings and contributions. When more than one payrate is involved in the retroactive adjustment, report a single entry for each new pay rate.”

Payrate and Earnings Incorrectly Reported

The City incorrectly reported the payrate and earnings for one sampled employee during the 12/09-4 service period. Specifically, the employee was a Fire Division Chief with a payrate of \$82.87 per hour (\$14,364.133 per month); however, effective December 23, 2009, the employee began working as the Acting Fire Chief with a payrate of \$88.49 per hour (\$15,338.267 per month). The 12/09-4 service period began on December 12, 2009, and ended on December 25, 2009. The City incorrectly reported the total earnings from the two positions, \$6,742.00, and the Fire Chief monthly payrate, \$15,338.267, as a single line item to CalPERS. The City should have reported the payrate and earnings for each position as two separate line items to CalPERS.

CalPERS Procedures Manual, page 104, states "If a person receives a salary increase or decrease during the current service period, both pay rates must be reported. This will require two line entries, reporting the proper amount earned under each pay rate."

Criteria:

Government Code: § 20160, § 20630(b), § 20636(a), § 20636(b)(1)

CITY OF HUNTINGTON BEACH

Finding 4: The payrate for the position of City Administrator was not included in the City's publicly available pay schedules.

Recommendation:

The City should ensure payrates for all positions are listed in publicly available pay schedules pursuant to Government Code Section 20636 and California Code of Regulations Section 570.5.

OAS recommends CASD work with the City to assess the impact of this payrate reporting issue and to determine if adjustments are needed to members' accounts pursuant to Government Code Section 20160.

Condition:

OAS reviewed the reported payrates during fiscal years July 1, 2007, through June 30, 2010, for a sample of 28 employees and determined payrates for all sampled positions were listed on publicly available pay schedules, with the exception of the City Administrator position. The City Administrator's employment agreement specified an annual salary of \$240,000, was approved and adopted by the City's governing body in open session, and was posted on the City's website. However, the payrate for the position of City Administrator was not included in the City's publicly available pay schedules in accordance with Government Code Section 20636 and California Code of Regulations Section 570.5.

Criteria:

Government Code § 20636, subdivision (b)(1)
Government Code § 20636, subdivision (d)

California Code of Regulations § 570.5

CITY OF HUNTINGTON BEACH

Finding 5: The City incorrectly included items that were solely for personal health and safety when reporting the value of uniforms. In addition, the value of City provided uniforms, including uniform maintenance was not reported.

Recommendation:

When reporting the value of uniforms, the City should exclude items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes. In addition, the City should report the monetary value of the purchase, rental and maintenance of uniforms provided by the City.

OAS recommends CASD ensures the City properly reports uniform allowance to CalPERS. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Conditions:

OAS reviewed a list of uniform items supplied to each employee group and the bi-weekly cost reported to CalPERS as uniform allowance. However, when reporting the uniform allowance to CalPERS, the City incorrectly included items that were solely for personal health and safety, such as belts, badges, windbreakers, rain suits, foul weather jackets, hats, etc., for the employee groups provided uniforms. In addition, the City failed to report the value of the uniforms, including uniform maintenance, provided to the Fire Chief since the Fire Chief's date of hire, January 27, 2010.

Criteria:

Government Code: § 20160, § 20636(c)(6)

California Code of Regulations: § 571(a)(5)

CITY OF HUNTINGTON BEACH

Finding 6: The City did not enroll temporary/part-time employees who met membership eligibility requirements.

Recommendation:

The City should review the membership status of all temporary/part-time employees and enroll those that have met membership eligibility requirements, including those that have prior non-refunded membership with CalPERS.

OAS recommends CASD ensures the City properly enroll eligible temporary/part-time employees. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Conditions:

OAS reviewed the hours worked for a sample of seven temporary/part-time employees during fiscal years 2007/2008, 2008/2009, and 2009/2010 to determine whether the employees met membership eligibility requirements, and if so, were enrolled into CalPERS membership timely. OAS determined four temporary/part-time employees met CalPERS membership eligibility requirements; however, were not enrolled into CalPERS membership.

Specifically, one employee completed 1,000 hours of work by the pay period ending March 5, 2010 and three employees, hired through temporary employment agencies, completed 1,000 hours of work, one by the end of May 2008 and two by the end of January 2010. The City should have enrolled the temporary/part-time employees into membership no later than the first day of the first pay period of the month following the month in which 1,000 hours of service were completed.

Criteria:

Government Code: § 20160, § 20305(a)

CITY OF HUNTINGTON BEACH

Finding 7: The participant data used in the City's OPEB Valuation was not consistent with the City's records and CalPERS records used to identify participant information.

Recommendation:

The City should ensure all retired participants, including those under Medicare, and all active participants are included in the participant data used in the Summary of Actuarial Information Required for CalPERS Financial Statements (Summary) and the Other Post Employment Benefits (OPEB) Actuarial Valuation.

Condition:

The records provided by the City that were used in the City's Summary and OPEB Actuarial Valuation did not include PEMHCA retiree participants under Medicare benefits. As a result of the incorrect data provided by the City, the OPEB Actuarial Valuation and the Summary understated the number of retiree participants. The City should ensure all retiree participants, including PEMHCA participants under Medicare, are included in the participant data used in the OPEB Actuarial Valuation and the Summary.

In addition, the records provided by the City that were used in the OPEB Actuarial Valuation and the Summary did not include all active employees at the City during March 2009; the period data was compiled for the actuarial valuation. The City's active employee payroll listing included 22 employees that were not included in the participant data. The City should ensure all active participants are included in the participant data used in the OPEB Actuarial Valuation and the Summary.

In conclusion, based on the documentation provided by the City and a review of CalPERS records, the participant data used in the Summary and OPEB Actuarial Valuation was understated. OAS requested additional information and is currently awaiting a response from the City to identify the reason for the discrepancy.

Criteria:

Government Code: § 20160, § 22942, § 222944

The California Employer's Retiree Benefit Trust Program (CERBT) Agreement and Election of the City of Huntington Beach to Prefund Other Post Employment Benefits Through CalPERS

CITY OF HUNTINGTON BEACH

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 agency'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. 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 thirty 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 Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: October 2012
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIA, CIDA, Manager
Jose Martinez
Terry Heffelfinger

CITY OF HUNTINGTON BEACH

APPENDIX A

BACKGROUND

CITY OF HUNTINGTON BEACH

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 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. 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. CalPERS California Employers' Retiree Benefit Trust (CERBT) provides investment management, trust administration, and GASB 43 compliant reporting to California public employers who wish to pre-fund their Other Post-Employment Benefits (OPEB).

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 employer's 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.

CITY OF HUNTINGTON BEACH

APPENDIX B

OBJECTIVES

CITY OF HUNTINGTON BEACH

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, health benefits, and CERBT contracts with CalPERS were followed.

This review covers the period of July 1, 2007, through June 30, 2010. OAS completed a prior review covering the period of April 1, 2000, through June 30, 2003.

SUMMARY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the City's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ Reviewed:
 - Provisions of the Contract 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 CalPERS 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
- ✓ Reviewed City payroll records and compared the records to data reported to CalPERS to determine whether the City correctly reported compensation.

CITY OF HUNTINGTON BEACH

- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to City 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.
- ✓ Reviewed CalPERS listing reports to determine whether the following payroll reporting elements were reported correctly.
- ✓ Reviewed the City's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the City's enrollment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the City's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the City's affiliated entities to determine if the City shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the City or by the affiliated entity.
- ✓ Reviewed the City's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick.
- ✓ Reviewed health records to determine whether the City properly enrolled eligible individuals into CalPERS Health Benefits Program, if contracted for Health Benefits.
- ✓ Reviewed the City's payroll and personnel records to determine whether the City accurately reported retiree premiums paid directly to providers other than CalPERS CERBT and accurately reported participant data used in the OPEB cost valuation.

APPENDIX C

CITY'S WRITTEN RESPONSE

NOTE: The City provided attachments to its response which were intentionally omitted from this appendix.



CITY OF HUNTINGTON BEACH

Finance Department

Lori Ann Farrell
Director of Finance

July 30, 2012

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

Dear Ms. Junker:

We are in receipt of the California Public Employees' Retirement System's (CalPERS) draft report of the City of Huntington Beach's compliance with its CalPERS contracts and the California Employer's Retiree Benefit Trust (CERBT) documents for retiree medical benefits.

Attached please find the Management Response from the City of Huntington Beach in response to your preliminary report findings. We are available to discuss our response in greater detail either in person or on the phone, as needed.

Please feel free to contact me at (714) 536-5225 if you need additional information or have any questions.

Sincerely,

Lori Ann Farrell
Director of Finance

Attachments

cc: Mary Lynn Fisher, Chief BNSD, CalPERS
Karen De Frank, Chief, CASD, CalPERS
Rand Anderson, Acting Chief, APSD, CERBT
Jennifer McGrath, City Attorney, City of Huntington Beach
Michele Warren, Human Resources Director, City of Huntington Beach
Carol Molina-Espinoza, Budget Manager, City of Huntington Beach
Brigitte Charles, Principal Human Resources Analyst, City of Huntington Beach
Laurie Hill, Senior Payroll Technician, City of Huntington Beach

CITY OF HUNTINGTON BEACH
Management's Response

Finding 1: Non-Reportable Compensation

Certain non-reportable compensation was reported as special compensation to PERS.

Management Response:

In the case of sworn police personnel only, the City has been reporting Holiday Pay and Holiday Shift Differential Pay as special compensation to CalPERS, in compliance with the City's Memoranda of Understanding with these bargaining groups (i.e. Police Officer's Association and the Police Manager's Association).

As stated in the audit report, whether this type of compensation is eligible for reporting as special compensation is a matter that is currently being litigated in the courts and is currently before the California Court of Appeals. As such, out of an abundance of caution, the City has continued this practice until a final decision is rendered by the Court.

Finding 2: FLSA Premium Pay

The City over-reported FLSA premium pay due to incorrectly calculating the FLSA hours and premium rate of pay for firefighters.

Management Response:

The City of Huntington Beach understands CalPERS' stance that this practice results in the over-reporting of premium pay pursuant to law. However, the actual calculation for reporting premium pay to CalPERS, as it relates to FLSA and the City's fire personnel, is proscribed in the Memorandum of Understanding between the Fire Fighter's Association and the City of Huntington Beach.

As such, the City is obtaining a formal legal opinion regarding this practice and to determine the appropriate next steps to bring the implementation of the MOU in compliance with all applicable laws, codes and regulations.

Finding 3: Payrate and Regular Earnings

Retroactive salary increases were incorrectly reported for a director during the final compensation period. In addition, payrate and earnings were incorrectly reported for one employee serving in an acting position.

Management Response:

The City of Huntington Beach agrees that in these two specific instances, the retroactive salary increases, as reported to CalPERS, were not precisely correct.

Please be advised that these were isolated incidents and that the Finance Department has put procedures into place to ensure all retroactive salary increases including payrate and earnings are correctly reported in the future.

Finding 4: Special Compensation

The City incorrectly included items that were solely for personal health and safety when reporting the value of uniforms. In addition, the value of City provided uniforms, including uniform maintenance was not reported.

Management Response:

The City of Huntington Beach has modified the financial software system to ensure that items solely for personal health and safety are not included when reporting the value of uniforms.

In addition to this automated solution, the City's written Payroll procedures will also be revised to ensure that personal health and safety items are not added to the value of uniforms when reporting compensation to CalPERS for members receiving City paid uniform benefits.

Finding 5: Temporary/Part-Time Employees

Temporary/part-time employees were not enrolled in CalPERS membership.

Management Response:

The City of Huntington Beach has developed new procedures to assist in monitoring whether temporary and/or part-time employees have become eligible for CalPERS based on the number of hours worked. Specifically, a report is provided to all 13 departments throughout the City after each payroll run to indicate the number of hours worked by the part-time employees to ensure proper monitoring and enrollment in CalPERS, if eligibility requirements have been met.

In addition, the Human Resources Department will also be reviewing the biweekly hourly payroll reports as an added layer of due diligence and oversight.

Finding 6: California Employer's Retiree Benefit Trust

The participant data used in the City's OPEB Valuation was not consistent with the City's records and CalPERS records used to identify participant information.

Management Response:

The participant data used in any actuarial study is typically from a specific "point in time;" hence, discrepancies between the actuarial report's data set, and the CalPERS' data set (or any other) is not uncommon, and is not cause for significant concern, unless the discrepancies are large. In the case of the City's retiree medical trust plan, a 22 participant discrepancy does not appear to be material as it reflects an approximate 3% discrepancy.

However, to ensure that the City's actuarial reports are accurate and reliable, the City has switched to another actuarial firm, Bartel & Associates, to conduct its actuarial reports for the CERBT on a go forward basis.



CITY OF HUNTINGTON BEACH

Finance Department

Lori Ann Farrell
Director of Finance

September 20, 2012

Michael Dutil, CIA
Manager, Office of Audit Services
CalPERS
P.O. Box 942701
Sacramento, CA 94229-2701

Re: City Manager Payrate – Additional Finding/Issue - OBJECTION

Dear Mr. Dutil:

The City of Huntington Beach is in receipt of your letter dated September 12, 2012, notifying us of an additional potential audit finding. The City of Huntington Beach objects to this preliminary audit finding based upon all of the following facts, collectively:

- The issue was not raised during the original audit term – 2010 subsequently, and it does not relate to the audit period in question;
- The California Code of Regulations Section 570.5 was not effective until August 2011 which is after outside the original audit period;
- The City Manager's (formerly City Administrator's) contract was approved in accordance with all of the requirements of California Code of Regulations Section 570.5 (even though the regulation was not yet effective);
 - a. The contract was approved by the City Council on August 4, 2008.
 - b. The contract identified the position of City Administrator (titled changed to City Manager by charter revision).
 - c. The contract listed the payrate as \$240,000.
 - d. The contract stipulates the time base as ANNUALLY.
 - e. The contract is available both online and in the Office of the City Clerk during normal business hours.
 - f. The effective date of the agreement is September 22, 2008 (there have been no revisions).
 - g. The contract (copy) may be obtained from the Office of the City Clerk during normal business hours.
 - h. The contract contains all of the appropriate provisions within the original document.

- i. The agreement appears on the public agenda (Item E-19) of 08/04/08 which was noticed in accordance with California public meeting law.

Please note that documents in support of the governing body's approval of this agreement as specified herein are hereby attached.

For the aforementioned reasons, the City of Huntington Beach respectfully disagrees with this potential finding. As such, we are formally requesting it not be included in the final audit reports. Thank you in advance for your review and reversal of this finding.

Respectfully Submitted,



Lori Ann Farrell
Finance Director

c: Terry Hefflefinger, Auditor

Attachments

City Council Agenda
Staff Report and Agreement
City Council Minutes