

Office of Audit Services



CalPERS

Public Agency Review

City of Colton

CalPERS ID: 1959058023
Job Number: SP15-026

August 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

August 25, 2016

CalPERS ID: 1959058023
Job Number: SP15-026

Stacey Dabbs, Interim Finance Director
City of Colton
650 N. La Cadena Drive
Colton, CA 92324

Dear Ms. Dabbs:

Enclosed is our final report on the results of the public agency review completed for the City of Colton (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 3. We appreciate the additional information that you provided in your response. After consideration of this information, we amended Finding 3. However, our recommendations remain as stated 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: Council Members, City of Colton
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 Colton (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 findings and observation during the review. Details are noted in the Results section beginning on page three of this report.

- Pay schedule did not meet all of the requirements of the Government Code and CCR.
- Special compensation was not reported as required by Government Code and CCR.
- Earnings were incorrectly reported.
- Retroactive adjustments were incorrectly reported.
- Observation: Agency records did not agree with my|CalPERS information.

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, 1945 to provide retirement benefits for local miscellaneous and 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 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. Additionally, OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No.67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from

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July 1, 2013 through June 30, 2014. 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 did not have a pay schedule that met all of the Government Code and CCR requirements.

Condition:

The Agency did not have a pay schedule that met all the requirements of Government Code and CCR. Specifically, the pay schedules provided by the Agency did not indicate the time base for all positions such as hourly, daily, biweekly, monthly, bimonthly or annually. In addition, the Agency's pay schedule did not include the payrates for all employee positions and was not duly approved and adopted by the Agency's governing body in accordance with the requirements of applicable meeting laws. For example, the Agency's pay schedule referenced another document in lieu of disclosing the City Manager's payrate. Furthermore, the Agency's pay schedule was not updated to reflect pay increases granted to employees covered under the Colton Police Officers Association and the Non-Represented Executive labor agreements.

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.

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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.

Recommendation:

The Agency should ensure it has a pay schedule that 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.

Condition:

- A. The Agency did not report the monetary value for the rental, purchase and maintenance of uniforms provided to police, fire and water/wastewater employees required to wear uniforms. Government Code Section 20636 and CCR Section 571 require that the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation for classic employees.
- B. The Agency incorrectly reported Uniform Allowance as a lump sum amount for safety employees who are required to wear uniforms. Specifically, the Agency compensated police and fire safety employees with an annual Uniform Allowance and reported the allowance as a lump sum amount instead of as earned. Pursuant to Government Code Section 20636(c)(3), the Agency shall identify the pay period(s) in which special compensation was earned.
- C. The Agency's written labor agreement for the police, fire and water/wastewater employees did not include the conditions for payment of the monetary value of the uniforms. CCR Section 571 requires that the conditions for payment including, but not limited to, eligibility for, and amount of the special compensation be included in a written labor policy or agreement.
- D. The Agency incorrectly reported Holiday Pay cash-outs as lump sum amounts for fire safety employees. Specifically, the Agency reported Holiday Pay cash-outs for its fire employees as lump sum amounts in the pay period ended July 4, 2014. Government Code Section 20636(c)(3) requires the Agency to identify the pay period(s) in which special compensation was earned.
- E. The Agency incorrectly reported Holiday Pay that did not qualify as special compensation. Specifically, the Agency's written labor agreement allows police employees to accrue holiday hours beyond the year in which it was earned. However, CCR Section 571 states that if a written labor agreement allows employees to accumulate holiday credit beyond the year in which it is earned, and an employee later elects to cash out accumulated holiday credit, it is not reportable compensation. Therefore, the Agency should not have reported the Holiday Pay as special compensation to CalPERS.

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- F. The Agency incorrectly reported Peace Officer Standard Training (POST) Pay and College Degree Incentive Pay in the pay period ended June 20, 2014. Specifically, the Agency included non-reportable Holiday Pay (see Finding 2E) in its calculation for POST Pay and College Degree Incentive Pay for three police officers. Compensation derived from items that are not reportable to CalPERS do not meet the definition of reportable compensation pursuant to Government Code Section 20636 and CCR Section 571.
- G. The Agency incorrectly included special compensation in base payrate and regular earnings in various pay periods for four police officers. Specifically, the Agency incorrectly reported POST Certificate Pay in regular earnings for two Police Officers and in base payrate for a Police Sergeant and a Police Corporal/Detective. Certificate Pay is defined in the Agency's written labor policies and is exclusively listed as special compensation in CCR Section 571. Therefore, POST Certificate Pay should be reported as special compensation separately from payrate and regular earnings.
- H. The Agency incorrectly included special compensation in regular earnings for two police safety employees who qualified for Educational Incentive Pay in pay period ended June 20, 2014. Educational Incentive Pay is defined in the Agency's written labor policies and is exclusively listed as special compensation in CCR Section 571. Therefore, Educational Incentive Pay should be reported as special compensation separately from regular earnings.
- I. The Agency incorrectly reported Shift Differential in regular earnings for a Police Corporal/Detective. Shift Differential is defined in the Agency's written labor policy for police employees and is exclusively listed as special compensation in CCR Section 571. Therefore, Shift Differential should be reported as special compensation separately from regular earnings.

Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, special compensation is required to be contained in a written labor policy or agreement indicating the eligibility 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.

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Recommendation:

The Agency should report the monetary value of the uniforms provided as special compensation in the period(s) earned.

The Agency should ensure that all items of special compensation are contained in a written labor policy or agreement that indicates the conditions for payments of the item of special compensation.

The Agency should ensure special compensation is reported in the period(s) earned.

The Agency should only report items of special compensation that meet the requirement of Government Code and CCR.

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 compensation.

Condition:

The Agency incorrectly reported regular earnings for a Fire Battalion Chief in the pay period ended June 20, 2014. The Fire Battalion Chief received an additional \$1,200.00 per month for a special assignment performing Administrative Battalion Chief duties. Further analysis showed that the additional compensation was for performing administrative duties and acting as the Fire Chief. The compensation for each assignment, Fire Staff Premium Pay and Temporary Upgrade Pay, would be reportable if it was paid and reported separately and met the definition for each assignment as defined in CCC Section 571. However, by combining the two assignments, the special assignment pay does not meet any of the definitions of special compensation as outlined in CCR Section 571(a). In order for the compensation to be reportable, the conditions of payment must meet the definition of CCR 571.

Recommendation:

The Agency should only report earnings that qualify as compensation earnable in accordance with the Government Code and CCR.

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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4: The Agency incorrectly reported retroactive adjustments.

Condition:

- A. The Agency incorrectly reported a retroactive special compensation. Specifically, a Police Sergeant received a retroactive special compensation adjustment of \$397.20 for POST Certificate Pay in the pay period ended June 20, 2014. Although the Agency correctly reported the retroactive special compensation amount, the Agency incorrectly reported the payrate associated with the retroactive adjustment. The Agency reported a payrate of \$9,466.64. However, the Police Sergeant's authorized monthly payrate pursuant to a personnel action form effective February 1, 2014 was \$8,606.00. As a result, the payrate was over reported by \$860.64. Payrate is an important factor in computing a member's retirement allowance because it affects service credit and final compensation.

- B. The Agency incorrectly reported a retroactive salary adjustment for a Police Officer. Specifically, a Police Officer received a retroactive salary increase effective February 1, 2014. However, the Agency reported the retroactive salary adjustment as a retroactive special compensation adjustment. In addition, the Agency reported the retroactive salary adjustments with an effective date of January 1, 2014. Retroactive salary adjustments used to capture salary increases covering multiple periods should be reported to CalPERS in the pay periods earned. Furthermore, retroactive adjustments must be accurately reported as they contain several factors that can affect employee's retirement calculations and benefits.

Recommendation:

The Agency should ensure retroactive special compensation adjustments are reported with the correct payrate.

The Agency should ensure that retroactive salary adjustments are reported separately from retroactive special compensation adjustments. In addition, the Agency should ensure that retroactive salary adjustments are reported in the pay periods earned.

The Agency should work with EAMD to assess the impact of this incorrect reporting and make any adjustments, if necessary, to any impacted retired member accounts pursuant to Government Code Section 20160.

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Criteria:

Government Codes: §20120, §20121, § 20160; § 20630; § 20636
CCR: § 571

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Observation: The Agency's records did not agree with my|CalPERS information.

OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans*. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active, inactive, or retired), class of employee, and eligible compensation.

OAS identified one employee whose name was misspelled in my|CalPERS. In addition, OAS identified three employees who had hire dates that were different from the hire dates in my|CalPERS. Furthermore, OAS identified three individuals who had employment statuses that were different from the employment statuses in my|CalPERS. The Agency's records show that the employees have separated; however, the employees were not separated through my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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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
Chris Wall, MBA, Senior Manager
Christopher Lee, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were to determine whether the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting procedures prescribed in the Agency's retirement contract with CalPERS.

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 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 time records
 - Agency payroll information including Contribution Detail Transaction History reports
 - Documents related to employee payrate, special compensation, 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 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 records to determine whether member census data agreed with myCalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE

NOTE: The City provided an attachment to the response that was intentionally omitted from this appendix.



July 25, 2016

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

CITY OF COLTON DRAFT REPORT DATED JUNE 30, 2016
CALPERS ID: 1959058023 – JOB NUMBER SP15-026

Dear Ms. Chappuie:

The City of Colton is in receipt of the CalPERS Compensation Review draft report dated June 30, 2016. This letter provides the City's written responses to the findings of the report. We appreciate the gracious extension granted for the City's responses to June 29, 2016.

The City's response is as follows:

Finding 1:

The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

City Response:

The City is in agreement with the finding. During the audit period, the approved salary schedule did not meet all of the Government Code and CCR requirements. In October 2015, the pay schedule was modified to ensure compliance. The pay schedule is updated to reflect any Memorandum of Understanding (MOU) related pay increases as well as any separate Council actions. The current pay schedule is publically available on the City's website.

Finding 2:

The Agency did not report special compensation in accordance with the Government Code and CCR.

2A. The agency did not report the monetary value for the rental, purchase, and maintenance of uniforms provided to police, fire, and water/wastewater employees required to wear uniforms.

City Response:

The City is in agreement with the finding. The City will work with each of the affected bargaining units to determine the value of the provided clothing and incorporate the necessary language in the applicable MOUs. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2B. The Agency incorrectly reported Uniform Allowance as a lump sum amount for safety employees who are required to wear uniforms.

City Response:

The City is in agreement with the finding. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2C. The Agency's written labor agreement for the police, fire, and water/wastewater employees did not include the conditions for payment of the monetary value of the uniforms.

City Response

The City is in agreement with the finding. The City will work with each of the affected bargaining units to determine the value and conditions for payment of the monetary value of the uniforms and incorporate the necessary language in the applicable MOUs. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2D. The Agency incorrectly reported Holiday Pay cash-outs as lump sum amounts for fire safety employees.

City Response:

The City is in agreement with the finding. During the period under compensation review, the City reported the holiday pay cash-out into the period into which it was paid rather than the period earned as required by Government Code Section 20636(c)(3). The City has made corrections to its reporting of such cash-outs moving forward and will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2E. The Agency incorrectly reported Holiday Pay that did not qualify as special compensation.

City Response:

The City is in agreement with the finding. CCR Section 571 prevents the City from reporting holiday pay if the Agency's written labor agreement allows employees to accrue holiday hours beyond the year in which it was earned. The City has implemented the change moving forward and will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2F. The Agency incorrectly reported Peace Office Standard Training (POST) Pay and College Degree Incentive Pay in the pay period ended June 20, 2014.

City Response:

The City is in agreement with the finding. The City reported the Special Compensations associated with Holiday Pay that was determined (finding 2E) not reportable compensation. While these compensations are provisioned through the labor agreements, the City is in agreement that this is not reportable special

compensation pursuant to Government Code Section 20636 and CCR Section 571. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2G. The Agency incorrectly included special compensation in base payrate and regular earnings in various pay periods for four police officers.

City response:

The City is in agreement with the finding. POST Certificate Pay is a special compensation and should be reported separately from regular earnings. The City corrected the reporting mechanisms for special compensation for future reported periods and will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2H. The Agency incorrectly included special compensation in regular earnings for two police safety employees who qualified for Educational Incentive Pay in the period ending June 20, 2014.

City response:

The City is in agreement with the finding. Educational Incentive Pay is a special compensation and should be reported separately from regular earnings. The City corrected the reporting mechanisms for Educational Incentive Pay for future reported periods and will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

2I. The Agency incorrectly reported Shift Differential in regular earnings for a Police Corporal/Detective.

City response:

The City is in agreement with the finding. Shift Differential is a special compensation and should be reported separately from regular earnings. The City corrected the reporting mechanisms for Shift Differential for future reported periods and will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

Finding 3:

The Agency incorrectly reported compensation.

City response:

The City disagrees with this finding. The Fire Battalion Chief received additional compensation for performing Administrative Battalion Chief duties. The Special Assignment Pay was included within a side letter executed between the City and the bargaining unit pursuant to the City Council approval of the assignment on November 15, 2011. The assignment was made available to all members in the classification; the memorandum reviewed by CalPERS merely served as the placement of the Battalion Chief in question during the audit period into the special assignment. Multiple Battalion Chiefs have been assigned to the Administrative Battalion Chief special assignment since its approval in 2011. The City contends that the provisions of CCR571(a) allow for reporting of this special compensation as Special Assignment Pay (Fire Staff Premium), as 1. Battalion Chiefs are members of the Colton Firefighters Association and 2. the special assignment pertains to the performance of administrative work.

Finding 4:

The Agency incorrectly reported retroactive adjustments.

4a. The Agency incorrectly reported retroactive special compensation.

City Response:

The City is in agreement with the finding. Although the City correctly reported the special compensation amount, the City over reported the payrate associated with this retroactive salary. The City has implemented changes in reporting mechanisms to prevent the payrate from being reported incorrectly. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

4b. The Agency incorrectly reported a retroactive salary adjustment for a Police Officer.

City Response:

The City agrees with the finding. The City incorrectly reported the period in which a retroactive salary adjustment was earned. The City understands the importance of accurate reporting and will exercise better attention to detail when reporting retroactive salary adjustment dates in the future. The City will work with the CalPERS Employer Account Management Division on adjustments, if necessary.

Observation:

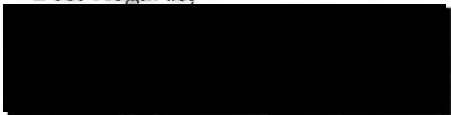
The Agency's records did not agree with my|CalPERS information

City Response:

The City agrees with the observation. The City understands the importance of the correctness of census data reported in my|CalPERS. The City will make all necessary adjustments in my|CalPERS to ensure the Agency records are accurately reflected in my|CalPERS.

In conclusion, the City of Colton is in agreement with the majority of the findings identified in the CalPERS Compensation Review. In many cases, corrections to the process have prevented further reporting errors to be perpetuated. In accordance with the City's contract with CalPERS, the City will work collaboratively with CalPERS to make any corrections necessary pending the final outcome of this report. We appreciate Mr. Christopher Lee's professionalism and the time spent with City staff to complete the audit. Additionally, we appreciate your guidance to assist us continue to be in compliance with our contract with CalPERS. We look forward to receiving the final report.

Best Regards,



Original signed by Stacey Dabbs

Stacey Dabbs
Acting Finance Director

Enclosures