

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

## **City of Imperial Beach**

**CalPERS ID: 3509025322**  
**Job Number: P14-013**

**August 2015**



California Public Employees' Retirement System  
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August 28, 2015

CalPERS ID: 3509025322  
Job Number: P14-013

Erika Cortez, Human Resource Manager  
City of Imperial Beach  
825 Imperial Beach Blvd  
Imperial Beach, CA 91932.

Dear Ms. Cortez:

Enclosed is our final report on the results of the public agency review completed for the City of Imperial Beach (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 regarding Finding 3 that you provided in your response. After consideration of this information and review of our test results, we removed one of the two sampled employees identified in Finding 3 from 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 Imperial Beach  
Risk and Audit Committee Members, CalPERS  
Matthew G. Jacobs, General Counsel, CalPERS  
Anthony Suine, Chief, BNSD, CalPERS  
Renee Ostrander, Chief, EAMD, CalPERS  
Carene Carolan, Chief, MAMD, CalPERS

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## RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Imperial Beach (Agency) complied with applicable sections of the California Government Code (Government Code), California Code of Regulations (CCR) and its contract with the California Public Employees' Retirement System (CalPERS).

The Office of Audit Services (OAS) noted the following findings during the review. Details are noted in the Results section beginning on page two of this report.

- Pay schedule did not meet all of the Government Code and CCR requirements.
- Special compensation was not reported as required.
- Eligible part-time employee was not enrolled into membership as required.

OAS recommends the Agency comply with applicable sections of the Government Code, 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 May 1, 1961 to provide retirement benefits for local miscellaneous and safety employees. By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and by the Public Employees' Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the Board approved plan for Fiscal Year 2014-15, OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from July 1, 2011 through June 30, 2014. The review objectives and methodology are listed in Appendix A.

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's pay schedule did not meet all of the Government Code and CCR requirements.

***Condition:***

The Agency's pay schedule, effective July 1, 2013 to June 30, 2015 did not meet all the requirements of Government Code Section 20636 and the CCR. Specifically, the payrate for the City Manager position was not listed in the pay schedule, instead the pay schedule referenced another document to identify the payrate.

Only compensation earnable as defined under Government Code Section 20636 and corresponding regulations can be reported to CalPERS and considered in calculating retirement benefits. For purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. Per CCR Section 570.5, a pay schedule, among other things, must:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws;
- Identify the position title for every employee position;
- Show the payrate as a single amount or multiple amounts within a range for each identified position;
- Indicate the time base such as hourly, daily, bi-weekly, monthly, bi-monthly, or annually;
- Be posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's internet website;
- Indicate an effective date and date of any revisions;
- Be retained by the employer and available for public inspection for not less than five years; and
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the payrate definition and pay schedule requirements cannot be used to calculate retirement benefits because the amounts do not meet the definition of payrate under Government Code Section 20636(b)(1). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

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***Recommendation:***

The Agency should ensure its pay schedule meets all of the Government Code and CCR requirements.

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

***Criteria:***

Government Codes: § 20160, § 20636

CCR: § 570.5

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**2:** The Agency did not report special compensation as required by the CCR.

**Condition:**

- A. The Agency did not report the monetary value for the purchase, rental and/or maintenance of uniforms. Specifically, the Agency purchased uniforms for lifeguards and public works employees; however, the Agency did not report the monetary value of the uniforms. Government Code and CCR require compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation.
- B. The Agency incorrectly reported the uniform allowance as a lump sum for firefighter employees. Specifically, the Agency provided an annual uniform allowance to firefighters in the amount of \$600.00 and reported the compensation as a lump sum in the pay period ended July 10, 2014. Government Code Section 20636 requires the Agency to identify the pay period(s) in which compensation was earned.
- C. The Agency's written labor policy containing the provision for uniforms for lifeguard and public works employees did not meet all of the requirements of CCR Section 571. Specifically, it did not indicate the conditions for payment of the uniforms. CCR requires that the written labor policy or agreement must contain the conditions for payment of the item of special compensation, including, but not limited to, eligibility for, and the amount of, the special compensation.
- D. The Agency did not report Holiday Pay as special compensation for three employees. The employees worked in positions that required scheduled staffing on May 26, 2014, an approved holiday, and were paid additional compensation. However, the Agency did not report the additional compensation as special compensation. Pursuant to CCR Section 571, additional compensation paid to an employee who is required to work in a position that require scheduled staffing without regard to holidays must be reported to CalPERS as special compensation.

Reportable special compensation is exclusively listed and defined in CCR Section 571. Reportable special compensation is required to be contained in a written labor policy or agreement indicating the eligibility and amount of special compensation. Also, special compensation are 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

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job classification. In addition, special compensation is not paid exclusively in the final compensation period and not final settlement pay.

***Recommendation:***

The Agency should ensure the monetary value of uniforms and uniform maintenance is reported in the period earned.

The Agency should ensure the conditions for payment of the uniforms and uniform maintenance are contained in a written labor policy or agreement as required.

The Agency should ensure Holiday Pay is reported for employees in positions that require scheduled staffing without regard to holidays.

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 did not enroll an eligible employee into membership as required.

***Condition:***

The Agency did not enroll one employee who worked more than 1,000 hours in a fiscal year. Specifically, the employee completed 1,000 hours of service on April 2, 2014. Government Code Section 20305 requires employees who complete 1,000 hours within a fiscal year to be enrolled into membership effective not 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.

***Recommendation:***

The Agency should monitor the number of hours worked by part-time employees to ensure employees are enrolled when membership eligibility requirements are met.

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: § 20044, § 20160, § 20305

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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  
Diana Thomas, CIA, Senior Manager  
Terry Heffelfinger, Lead Auditor  
Edward Fama, Auditor

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# **APPENDIX A**

## **OBJECTIVES**

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## OBJECTIVES

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

- Applicable sections of the California Government Code (Sections 20000 et seq.), California Public Employees' Pension Reform Act of 2013 (PEPRA) and Title 2 of the CCR.
- Reporting and enrollment procedures 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 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.

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- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the Agency's employment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when unlawful employment occurs.
- ✓ Reviewed the Agency's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the Agency's affiliated entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

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# **APPENDIX B**

## **AGENCY RESPONSE**

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



# City of Imperial Beach, California

HUMAN RESOURCES DEPARTMENT

825 Imperial Beach Blvd., Imperial Beach, CA 91932 Tel: (619) 423-8617 Fax: (619) 628-1395

August 6, 2015

Young Hamilton  
Acting Chief, Office of Audit Services  
California Public Employee's Retirement System  
P.O. Box 942701  
Sacramento, CA 94229-2701

CalPERS ID: 3509025322

**RE: Agency Response – DRAFT Audit Report for the City of Imperial Beach Job Number: P14-013**

Dear Ms. Hamilton:

The City of Imperial Beach ("City") is in receipt of the above-referenced report, furnished under your cover letter dated May 19, 2015, pertaining to the City's contract with the California Public Employee's Retirement System (CalPERS). The City was granted an extension to file this response. The City intends to work with CalPERS' staff to make any required changes, however, the City disputes one of the CalPERS' findings and recommendations set forth in the draft audit report.

Included below are the Findings and Recommendations from the draft audit report followed by the City's responses.

**Finding 1. The Agency's pay schedule did not meet all of the Government Code and CCR requirements.**

The draft audit report states that the City did not meet all the requirements of Government Code Section 20636 and the CCR, specifically:

1. The payrate for the City Manager position was not listed in the pay schedule; instead the pay schedule referenced another document to identify the pay rate.

**CalPERS Recommendation:**

The Agency should ensure its pay schedule meets all of the Government Code and CCR requirements.

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

**City's Response to Finding and Recommendation 1:** The City agrees with this CalPERS Finding and Recommendation. Since receipt of the draft report, the City amended its pay schedule on May 20, 2015, and has included the City Manager's pay rate which has been publically approved by the City's governing body in accordance with requirements of applicable public meetings laws, and lists all position titles, pay rates, time base, and the effective date of the pay schedule, including any revisions, as required by Government Code Section 20636 and CCR Section 570.5. The City will work with EAMD staff to make any necessary adjustments.

**Finding 2. The Agency did not report special compensation as required by the CCR.**

The draft audit report states that the City did not report special compensation as required by the CCR, specifically:

- A. The City did not report the monetary value for the purchase, rental and/or maintenance of uniforms for lifeguards and public works employees.
- B. The City incorrectly reported the uniform allowance as a lump sum for firefighter employees.
- C. The City's written labor agreements did not meet all of the requirements and provisions for the uniforms for lifeguards and public works employees.
- D. The City did not report Holiday pay as special compensation for three employees when required to work in a position that required schedule staffing.

***CalPERS Recommendation:***

The Agency should ensure the monetary value of uniforms and uniform maintenance is reported as earned.

The Agency should ensure the conditions for payment of the uniforms and uniform maintenance are contained in a written labor policy or agreement as required.

The Agency should ensure Holiday Pay is reported for employees in positions that require scheduled staffing without regard to holidays.

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.

**City's Response:** The City agrees with these CalPERS Findings and Recommendations. Since receipt of the draft report, the City will or has taken the following steps:

- The City will await direction from CalPERS CCR staff to ensure the monetary value for the purchase, rental and/or maintenance of uniforms for lifeguards and public works employees is reported as earned.



- The City will await direction from CalPERS staff to correctly identify and report the uniform allowance as a lump sum for firefighter employees in the pay period in which the compensation was earned.
- Effective July 1, 2015, the City's revised the written labor agreement for the fire classified service employees to meet all of the requirements of CCR Section 571.
- The City's will revise the written labor agreement during our current labor negotiations with the general classified service, to include lifeguards and public works employees, to meet all of the requirements of CCR Section 571.
- The City will await direction from CalPERS on the treatment of the past payroll submission to report Holiday Pay as special compensation and will now report the pay periods in which the special compensation is earned.

**Finding 3. The Agency did not enroll eligible employees into membership as required.**

The draft audit report states that the City did not enroll eligible employees into membership as required, specifically:

- The City did not enroll employees who worked more than 1,000 in a fiscal year.

***CalPERS Recommendation:***

The Agency should monitor the number of hours worked by part-time employees to ensure employees are enrolled when membership eligibility requirements are met.

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.

**City's Response:** The City agrees with CalPERS Finding and Recommendations as follows:

- The City constantly monitors and will continue to monitor the number of hours worked by part-time employees to ensure employees are enrolled when membership eligibility requirements are met.
- After reviewing past hours of the employees listed on the "Confidential List" provided by CalPERS, the City agrees that one employee meets the requirements of membership eligibility. The City will work with CalPERS EAMD to identify and make adjustments as necessary to the impacted member.

The City disagrees with and disputes the CalPERS Findings and Recommendations as follows :

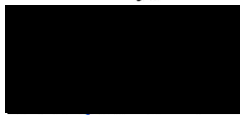
- After reviewing past hours of the employees listed on the "Confidential List" provided by CalPERS, the City disagrees that one employee meets the requirements of membership eligibility. The City pulled an hour's history detail

report through the City's payroll system and the hours resulted in less than 1,000 in the fiscal year, please see Appendix A – Confidential List and Appendix B – Hour's History Detail Report.

The City appreciates the opportunity to provide responses to the agency compliance review findings. We look forward to working in conjunction with CalPERS Employer Account Management Division to clarify and correct these issues.

Please feel free to contact me at (619) 423-8617 or [ecortez@imperialbeachca.gov](mailto:ecortez@imperialbeachca.gov) if you need additional information.

Sincerely,



Original signed by Erika N. Cortez

Erika N. Cortez  
Human Resources Manager

Enclosure: Appendix A - Confidential List  
Appendix B – Hours History Detail Reports

cc: Andy Hall, City Manager  
Doug Bradley, Administrative Services Director