

Office of Audit Services



CalPERS

Public Agency Review

City of Tulelake

**Employer Code: 1026
CalPERS ID: 1151979302
Job Number: P13-033**

August 2014



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 29, 2014

Employer Code: 1026
CalPERS ID: 1151979302
Job Number: P13-033

Jenine Coelho, City Administrative Clerk
City of Tulelake
P.O. Box 847
Tulelake, CA 96134

Dear Ms. Coelho:

Enclosed is our final report on the results of the public agency review completed for the City of Tulelake (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report. In accordance with our resolution policy, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your Agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: City Council of the City of Tulelake
Susan Lloyd, Finance Director of City of Tulelake
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

CITY OF TULELAKE

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Scope.....	1
Office of Audit Services Review Results	2
1: Pay schedule.....	2
2: Special Compensation	4
3: Payrate and Earnings.....	5
4: Optional Membership Enrollment.....	6
Conclusion	7
Objectives	Appendix A
Agency Response.....	Appendix B

CITY OF TULELAKE

RESULTS IN BRIEF

The primary objective of our review was to determine whether the City of Tulelake (Agency) complied with applicable sections of the California 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 requirements of CCR Section 570.5.
- Special compensation was not reported as required by the CCR.
- Payrate and earnings were incorrectly reported.
- Optional members were not enrolled as required.

OAS recommends the Agency comply with applicable sections of the California 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 January 1, 1975, to provide retirement benefits for local miscellaneous employees and local police. 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 2013-14, the OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review period was limited to the examination of sampled employees, records, and pay periods from July 1, 2010 to June 30, 2013. The on-site fieldwork for this review was conducted from April 16-18, 2014. The review objectives and a summary of the procedures performed are listed in Appendix A.

CITY OF TULELAKE

OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency's pay schedule did not meet all the requirements of CCR Section 570.5.

Condition:

The Agency's pay schedule did not include position title and payrates for every employee position as required by CCR Section 570.5. Specifically, the pay schedule in effect during the period under review did not include the position titles and payrates of the City Administrative Clerk, City Hall Admin, Council Member and City Librarian. In addition, compensation paid to certain employees and reported to CalPERS did not fall within the salary ranges listed on the Agency's pay schedule. 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 the purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule.

According to CCR Section 570.5, a pay schedule must, among other things:

- 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.
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the 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). There are no exceptions included in Government Code Section 20636(b)(1).

CITY OF TULELAKE

Recommendation:

The Agency should ensure its pay schedules meet all the CCR requirements.

The Agency should work with CalPERS Customer Account Services Division (CASD) to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636(a), § 20636(b)(1), § 20636(d)
CCR: § 570.5

CITY OF TULELAKE

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 of uniforms as special compensation. The Agency provided Uniform Allowance until August 25, 2012, and then began providing the uniforms to the Police Officers as stipulated in the Agency's labor policy. Although the Agency correctly reported Uniform Allowance, it did not report the monetary value of the uniforms purchased as special compensation. Government Code Section 20636 (c)(6) requires that the monetary value for the purchase, rental and/or maintenance of required clothing, a statutory item, be reported as special compensation. In addition, the Agency's written labor policy did not indicate the conditions for payment, including, but not limited to, eligibility for, and amount of, the special compensation.
- B. The Agency incorrectly reported Longevity Pay as special compensation. Specifically, the Agency paid the Police Chief a lump sum of \$2,303.69 for 20 years of service in February 2013. Because the payment was not historically consistent with prior payment for the job classification and paid periodically, Longevity Pay should not be reported as special compensation.

Reportable special compensation is required to be contained in a written labor policy or agreement with conditions for payment including amounts indicated, available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, historically consistent with prior payments for the job classification, not paid exclusively in the final compensation period, and not final settlement pay.

Recommendation:

The Agency should report the monetary value of uniforms as special compensation and only report items that qualify as special compensation to CalPERS.

The Agency should work with CASD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636
CCR: § 571

CITY OF TULELAKE

3: The Agency reported incorrect payrate and earnings.

Condition:

- A. The Agency reported an incorrect payrate for an employee holding two part-time positions. Specifically, the employee worked part-time as the City Librarian earning \$15.50 an hour and part-time as a City Hall Admin earning \$12.00 an hour. The Agency incorrectly reported the employee's payrate as \$15.50 an hour instead of reporting each position with its related payrate as separate line items. As a result, the employee's base payrate was over reported.
- B. The Agency incorrectly reported earnings for an employee. The Agency excluded earnings associated with four hours compensatory time off in the pay period ending June 1, 2014. As a result, earnings were under reported for this employee. The Agency incorrectly reported earnings of \$833.72 for 76 hours worked. The reportable earnings for the pay period were \$877.60 for 80 hours worked when including the reportable compensatory time off.
- C. The Agency incorrectly reported a Council member's earnings in pay period ending June 1, 2013. Specifically, the Agency reported bi-weekly earnings of \$76.92 which converts to a monthly payrate of \$166.66. However, the Council member's approved monthly payrate is \$250 and as a result bi-weekly earnings should be \$115.38.

Payrate is an important factor in computing a member's retirement allowance because service credit and final compensation are directly related to the payrate and earnings reported for a member.

Recommendation:

The Agency should ensure payrate and earnings are correctly reported.

The Agency should work with CASD to make any necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20630, § 20636

CITY OF TULELAKE

4: The Agency did not enroll optional members as required.

Condition:

The Agency did not enroll optional members as required. Specifically, the Agency enrolled two elective officers as optional members without completing Optional Membership Form, AESD-59, prior to enrollment into membership. Government Code Section 20322 states that an elective officer is excluded from membership in the CalPERS retirement system unless the officer files an election in writing with CalPERS to become a member.

Recommendation:

The Agency should ensure its elective officers file the appropriate election in writing with CalPERS for those who elect to be members.

The Agency should work with CASD to make any the necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20322

CITY OF TULELAKE

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix A. OAS limited the test of transactions to employee samples selected from the Agency's payroll 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 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, California Code of Regulations.

Respectfully submitted,

Original signed by Phyllis Miller

PHYLLIS MILLER, CPA, CIA

Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Michael Obad, Associate Program Evaluator

CITY OF TULELAKE

APPENDIX A

OBJECTIVES

CITY OF TULELAKE

OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the Agency complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the CCR.
- Whether prescribed reporting and enrollment procedures as they relate to the Agency's retirement contract with CalPERS were followed.

This review covers the period of July 1, 2010 through June 30, 2013.

SUMMARY

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 hours worked records
 - Agency payroll information including Contribution Detail Transaction History reports
 - Other documents used to specify payrate, special compensation, and benefits for employees
 - Various other documents as necessary
- ✓ 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 meeting laws.
- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.

CITY OF TULELAKE

- ✓ 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 960 hours were worked in a fiscal year.
- ✓ 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 entities to determine if the Agency shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the Agency or by the affiliated entity.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

CITY OF TULELAKE

APPENDIX B

AGENCY RESPONSE



CITY OF TULELAKE

591 Main Street
P. O. Box 847, Tulelake, CA 96134
Phone 530-667-5522 - FAX 530-667-5351
cityoftulelake@cot.net



July 31, 2014

Cheryl Dietz
Assistant Division Chief
Office of Audit Services

Dear Ms. Dietz:

In response to the review result findings, please note as follows:

Finding 1: The Agency's pay schedule did not meet the requirements of CCR Section 570.5.

Recommendation: The Agency should ensure its pay schedules meet all of the CCR requirements.

Response: The Agency will update the pay schedule to include all city employees, department heads and elected officials. Said schedule will be adopted by Council. The Agency will also ensure that all pay scales will follow the adopted rates indicated in the current pay schedule. The pay schedules will be updated as needed and will be posted within the City's Public Handbook.

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

Recommendation: The Agency should report the monetary value of uniforms as special compensation. The Agency should only report items that qualify as special compensation.

Response: The Agency will request the Council to approve issuing a uniform allowance in lieu of their current policy of providing uniforms so that the Agency will be in compliance with CCR 571 code.

Finding 3: The Agency reported incorrect pay rate and earnings. Conditions A, B and C.

Recommendation: The Agency should ensure pay rate and earnings are correctly reported.

Response: Condition A: The Agency will establish separate pay rate reporting areas for employees whom have multiple positions and rates. All pay rates will be reported within their corresponding area. Condition B: The Agency will ensure that the pay rate and earnings for all enrolled employee's are correctly reported on all future payroll reporting. Condition C: The Agency reported the earnings based on information provided by CalPERS customer service. Upon this finding, it was discovered the information provided was incorrect. The Agency will make the necessary adjustment for the reporting of this participant. All future elected officials will be reported according to CalPERS recommendations and CCR codes.

Finding 4: The Agency did not enroll Elected Officials as required.

Recommendation: The Agency should ensure it has its elective officers file the appropriate election in writing with CalPERS for those who elect to be members.

Response: The Agency has received the required form and has had all elected officials who opted to participate file the form. Those forms have been submitted to CalPERS in order to be in compliance.

For all above findings and recommendations, the Agency will work with the CalPERS customer account services division to make the necessary adjustments in order to be in full compliance. The Agency will continue to monitor all reporting to assist in ensuring that all of the future earnings are reported correctly.

Please contact me should further response or clarification be necessary.

Sincerely,

A handwritten signature in cursive script that reads "Susan Lloyd CPA".

Susan Lloyd CPA
Finance Director