

Office of Audit Services



CalPERS

Public Agency Review

City of Stockton

CalPERS ID: 6373973665
Job Number: BI15-014

February 2016



California Public Employees' Retirement System
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February 29, 2016

CalPERS ID: 6373973665
Job Number: BI15-014

Tami Matuska, Supervising Human Resources Analyst
City of Stockton
22 East Weber Avenue
Suite 150
Stockton, CA 95202

Dear Ms. Matuska:

Enclosed is our final report on the results of the public agency review completed for the City of Stockton (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report.

In accordance with our resolution policy, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your Agency. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief
Office of Audit Services

Enclosure

cc: City Council Members, City of Stockton
Laurie Montes, Deputy City Manager, City of Stockton
DeAnna Solina, Director of Human Resources, City of Stockton
Claire Tyson, Assistant Chief Financial Officer, City of Stockton
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 Stockton (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), California Code of Regulations (CCR), and its contract with the California Public Employees' Retirement System (CalPERS).

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

- Scheduled work hours were incorrectly reported.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, CCR and its contract with CalPERS. We also recommend the Agency work with the appropriate CalPERS divisions to resolve issues identified in this report.

SCOPE

The Agency contracted with CalPERS effective September 1, 1944 to provide retirement benefits for local miscellaneous and local safety employees (police and fire). By way of the Agency's contract with CalPERS, the Agency agreed to be bound by the terms of the contract and the Public Employees' Retirement Law (PERL). The Agency also agreed to make its employees members of CalPERS subject to all provisions of the PERL.

As part of the CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's compliance with the PERL and its contract related to compensation and payroll reporting. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through October 31, 2015. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency incorrectly reported scheduled work hours.

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

OAS reviewed the Deputy Fire Chief's payroll information reported for the Fiscal Year 2013-14. The Agency reported the Deputy Fire Chief on an hourly basis and identified scheduled full-time hours as 56 per week. However, the Deputy Fire Chief's normal full-time work schedule during this period was 40 hours per week. The Agency explained it did not report the change in the scheduled work hours when the Deputy Fire Chief switched from a 56 hour per week to a 40 hour per week work schedule. Based on the Agency records OAS obtained, this change went back to at least March 1, 2013.

If the Deputy Fire Chief were to retire at the end of June 2014, the monthly retirement could be overstated by as much as 40 percent. The Deputy Fire Chief's hourly payrate reported to CalPERS from July 1, 2013 through April 15, 2014 was \$51.79 and increased to \$69.56 per hour on April 16, 2014. To determine the Deputy Fire Chief's estimated one year final compensation, the hourly payrates would be multiplied by 56 hours to reach an estimated one year final compensation amount of \$161,592.95. The annual amount would convert to an estimated average of \$13,466.08 per month. However, the Deputy Fire Chief worked 40 hours per week, not 56 hours. Using the correct full-time work schedule of 40 hours, the Deputy Fire Chief's estimated one year final compensation amount would have been \$115,423.53, or \$9,618.63 per month. The final compensation amount would then be used in determining the Deputy Fire Chief's monthly retirement allowance. In the event the Fire Chief retired after June 2014, and had reached 30 years of service, the monthly retirement allowance would have been overstated by approximately \$3,462.71. Therefore, reporting accurate payroll information is essential in calculating correct member benefits at retirement.

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

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

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Recommendation:

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

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

Criteria:

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

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CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives outlined in Appendix A. The procedures performed provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract except as noted.

The findings and conclusions outlined in this report are based on information made available or otherwise obtained at the time this report was prepared. This report does not constitute a final determination in regard to the findings noted within the report. The appropriate CalPERS divisions will notify the Agency of the final determinations on the report findings and provide appeal rights, if applicable, at that time. All appeals must be made to the appropriate CalPERS division by filing a written appeal with CalPERS, in Sacramento, within 30 days of the date of the mailing of the determination letter, in accordance with Government Code Section 20134 and Sections 555-555.4, Title 2, of California Code of Regulations.

Respectfully submitted,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, CPA, MBA
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Alan Feblowitz, CFE, Senior Manager
Alicia Watts, Lead Auditor
Emma Shaw, Auditor
Michelle O'Connor, CPA, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited to determine whether member information was accurate and the Agency complied with:

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

Effective January 1, 2013, new enrollments are checked against the PEPRA definition of "new member," regardless of whether the enrollment is for a first time CalPERS member or an existing member. All members that do not fit within the definition of a new member are referred to as "classic members."

METHODOLOGY

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

- ✓ Reviewed:
 - Provisions of the contract and contract amendments between the Agency and CalPERS
 - Correspondence files maintained at CalPERS
 - Agency written labor policies and agreements
 - Agency salary, wage, and benefit agreements including applicable resolutions
 - Agency personnel records and employee time records
 - Agency payroll information
 - CalPERS payroll reports
 - Documents related to employee payrate and benefits
 - Various other relevant documents
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency correctly reported compensation.
- ✓ Reviewed payroll information reported to CalPERS and reconciled payroll records, personnel records, pay schedules, and written labor policies to determine whether the Agency correctly reported scheduled work hours, whether service credit was accurate, and whether retirement benefits were correct.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



CITY OF STOCKTON

HUMAN RESOURCES DEPARTMENT

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February 16, 2016

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

CITY OF STOCKTON AUDIT REVIEW FINDINGS

On February 9, 2016, we received your *Public Agency Review* report, CalPERS ID 6373973665, Job Number: BI15-014, via electronic mail.

We have reviewed your report and agree with your findings and recommendations. We will immediately take action to change the identified Deputy Fire Chief's payroll information moving forward.

In addition, the City of Stockton will conduct an internal audit to ensure that the appropriate Fire personnel reflect a 40-hour work week. As mentioned in the report, most Fire safety personnel do work a 56-hour week, however when an employee promotes to Fire Management, or works an administrative position, the employee's work hours are adjusted to a 40-hour work week. Our payroll section has stated that the payroll system does not automatically change an employee's work week when they have a status change, so this is a manual process, which allows for human error.

As stated in your exit conference call you had with City staff on February 2, 2016, we will await your final audit report. Once received, we will make the necessary retroactive changes.

DEANNA L. SOLINA, ESQ.
DIRECTOR OF HUMAN RESOURCES

 Original signed by Tami Matuska

TAMI MATUSKA
SUPERVISING HUMAN RESOURCES ANALYST

cc: Laurie Montes, Deputy City Manager
DeAnna Solina, Esq., Director of Human Resources
Claire Tyson, Assistant Chief Financial Officer
Edwin Gato, Accounting Manager
Jeanette Warren, Payroll Supervisor