

Office of Audit Services



Public Agency Review

City of West Sacramento

CalPERS ID: 4259962247
Job Number: SP15-018

June 2016



California Public Employees' Retirement System
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June 30, 2016

CalPERS ID: 4259962247
Job Number: SP15-018

Philip Wright, Assistant City Manager/Administrative Services Director
City of West Sacramento
1110 West Capitol Avenue
West Sacramento, CA 95691

Dear Mr. Wright:

Enclosed is our final report on the results of the public agency review completed for the City of West Sacramento (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 1, Finding 2B, and Finding 2D. We appreciate the additional information that you provided in your response. After consideration of this information, our recommendations remain as stated in the report. However, we added clarifying language to Finding 2D.

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 West Sacramento
John Perry, Human Resources Manager, City of West Sacramento
Karen Bonnett, Supervising Accountant, City of West Sacramento
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

CITY OF WEST SACRAMENTO

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RESULTS IN BRIEF

The objective of our review was to determine whether the City of West Sacramento (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 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 Government Code and CCR requirements.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Scheduled work hours were incorrectly reported.
- Member contributions 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 January 1, 1987 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 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's pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency did not have a pay schedule that included all positions and was duly approved and adopted by the Agency's governing body in accordance with the requirements of applicable meeting laws. Specifically, the Agency had salary schedules that were included in its written labor agreements and were approved by the governing body. However, the revisions to the salary schedules were not approved by the Agency's governing body. In addition, the salary schedules did not include the City Council Member positions. Furthermore, the Extra Help positions were contained on a separate salary 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 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

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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 Holiday Pay as special compensation for police employees covered under the West Sacramento Police Officers Association. Police employees work in positions that required scheduled staffing without regard to holidays. The Agency compensated the employees for holidays in the pay period ended November 29, 2013. However, the Agency did not report the Holiday Pay as special compensation. Holiday Pay is a statutory item that must be reported as special compensation pursuant to Government Code Section 20636 and CCR Section 571.
- B. The Agency incorrectly reported Uniform Allowance as lump sum amounts for safety management employees. Specifically, the Agency's written labor agreement for safety management employees provided a Uniform Allowance of one percent of base salary. However, the Agency reported the Uniform Allowance as a lump sum amount in the pay period ended January 10, 2014. Government Code Section 20636(c)(3) requires agencies to identify the pay period(s) in which special compensation was earned.
- C. The Agency's written labor agreement for the Local 522/West Sacramento Firefighter's Association did not list the conditions for payment of the Fair Labor Standards Act (FLSA) premium pay. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, eligibility for, and amount of, the special compensation.
- D. The Agency incorrectly reported Education Incentive Pay in earnings for Police Officers and Police Sergeants in the pay period ended November 29, 2013. Education Incentive Pay is defined in the Agency's written labor policy as an incremental amount, between \$150.00 and \$300.00 per month that is paid above an employee's base salary. The Educational pay meets the definition of special compensation in the Government Code and CCR Section 571. Therefore, Education Incentive Pay should be reported as special compensation separately from regular earnings per Government Code Section 20636(c)(3).

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

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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.

Recommendation:

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

The Agency should report Uniform Allowance as special compensation in the period(s) earned.

The Agency should ensure the provisions for payment of FLSA premium pay is contained in a written labor agreement.

The Agency should report Education Incentive Pay separately from regular earnings.

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 scheduled work hours.

Condition:

The Agency incorrectly reported the number of scheduled full-time work hours for fire and water treatment employees who moved from a 24 hour work shift to a day shift resulting in a 40 hour work week; however, the Agency continued to report a 56 hour work week. 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. Specifically, a fire safety employee was promoted to Fire Division Chief effective June 29, 2013 and worked a normal full-time work schedule of 40 hours per week. However, the Agency reported the Fire Division Chief on an hourly basis and identified scheduled full-time work hours as 56 per week.

Reporting the incorrect number of scheduled full time work hours can affect an employee's monthly retirement allowance. For example, if the Fire Division Chief were to retire, the monthly retirement could be overstated by as much as 40 percent. The Agency approved an hourly payrate of \$55.71 effective June 29, 2013. The employee's hourly payrates reported to CalPERS from July 2013 through June 2014 range from \$55.71 to \$57.66. To determine the employee'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 \$165,066.72. The annual amount would convert to an estimated average of \$13,755.56 per month. Using the correct full-time work schedule of 40 hours, the Fire Division Chief's estimated one year final compensation amount would have been \$117,904.80 or \$9,825.40 per month. The final compensation amount would then be used in determining the Fire Division Chief's monthly retirement allowance. In the event the Fire Division Chief retired and reached 30 years of service, the monthly retirement allowance would have been overstated by approximately \$3,537.14. 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
- Miscalculation of employer contributions
- Incorrect payments of benefits
- Hardship to retired members from a reduction in benefits when reimbursing the System.

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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 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: § 20120, § 20121, § 20160, § 20630

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4: The Agency incorrectly paid and reported member contributions.

Condition:

The Agency incorrectly paid and reported member contributions for classic employees. Specifically, the Agency had resolutions in place for each of its employee groups to split the normal member contributions; however, the Agency incorrectly paid and reported the full amount of contributions on the value of Employer Paid Member Contributions. As a result, the Agency overpaid its share of contributions and the employees underpaid their share of member contributions during Fiscal Year 2013-14.

Recommendation:

The Agency should ensure they correctly pay and report contributions.

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: § 20120, § 20121, § 20160
CCR: § 569

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

Condition:

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* requirements. 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 a discrepancy between the Agency's records and my|CalPERS database. Specifically, OAS identified five 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. The Agency should 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
Diana Thomas, Senior Manager
Marlene Noss, Manager
Nuntawan Camyre, Lead Auditor
Terry Heffelfinger, Lead 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 my|CalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



CITY HALL
1110 West Capitol Avenue
West Sacramento, CA 95691

City Council
(916) 617-4500

City Manager's Office
City Clerk
Early Learning Services
Information Technology
(916) 617-4500
Economic Development
(916) 617-4535

Community Development
Planning/Development Engineering
(916) 617-4645
Housing & Community Investment
(916) 617-4555
Building
(916) 617-4683
Code Enforcement
(916) 617-4925

Public Works
Administration
Transportation
Engineering
Flood Protection
(916) 617-4850
Environmental Services
(916) 617-4590
Utility Billing
(916) 617-4589

Administrative Services
Finance
(916) 617-4575
Human Resources
(916) 617-4567

Parks & Recreation
Administration
(916) 617-4620
Recreation Center
2801 Jefferson Boulevard
West Sacramento, CA 95691
(916) 617-4770
Community Center
1075 West Capitol Avenue
West Sacramento, CA 95691
(916) 617-5320

FIRE
2040 Lake Washington Boulevard
West Sacramento, CA 95691
(916) 617-4600
Fax (916) 371-5017

POLICE
550 Jefferson Boulevard
West Sacramento, CA 95605
(916) 617-4900

PUBLIC WORKS
Operations
1951 South River Road
West Sacramento, CA 95691
(916) 617-4850

VIA FACSIMILE AND US MAIL

June 8, 2016

Beliz Chappuie, Chief
CalPERS
Office of Audit Services
Post Office Box 942701
Sacramento, CA 94229-2701

Re: City of West Sacramento response to Draft Audit Report

Dear Ms. Chappuie:

I am in receipt of your letter dated May 23, 2016 regarding the outcomes of the City of West Sacramento Review.

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

The Review does not reflect that the City of West Sacramento staff (City staff) does take the City's salary schedule to the City Council every year as part of the budget process. What the City has not done is include the City Council's salaries or the extra help employee's salaries on that pay schedule. That is because the City Council members are not City employees; they are elected officials and the City wants to distinguish between regular and extra help employees. The extra help employee's salary schedule was taken separately to the City Council for approval. The City will include the City Council and extra help employees on the salary schedule going forward.

During the Review process, City staff was told the City needs to update the salary schedule every time a represented bargaining unit (Union) receives a previously negotiated salary increase. However, City staff do take all memorandum of understanding (MOU) to the City Council upon ratification by the Union for approval. Accordingly, those salary changes have been approved by the City Council at a public hearing. The purpose of requiring that an agency's salary schedule go to the City Council is transparency. As indicated in our meetings, this is accomplished under the City's current practice. It is City staff's position that going back to the City Council every time there is a previously negotiated and approved by

Council salary change serves no public purpose and is an example of unnecessary bureaucracy.

Finding #2: The Agency did not report special compensation in accordance with the Government Code and CCR.

In reference to Item A: reporting of Holiday Pay, City staff had always reported Holiday Pay as overtime and had been told when doing so that it was not Persable. As soon as City staff was given the information, it was immediately corrected. Unfortunately, this is not reflected in the Review.

In reference to Item B: that the City incorrectly reported Uniform Allowance as lump sum amounts for safety management employees, City staff reiterates its position during the review that the regulations defy logic and serve no public purpose. The idea of spreading the payment of uniform allowance over 12 months when a safety employee, management or line, needs the uniform on day one shows the disconnect between PERS regulations and the realities of managing a full-service city, and therefore the City is going to provide the full amount required to purchase the uniform at that time.

In reference to Item D: that the City incorrectly reported Education Incentive Pay in earnings for Police Officers and Police Sergeants, the Review again does not reflect that City staff corrected this in January 2015 (and that the way it was reported was correct during the time period of the Review).

If you have any questions, please feel free to contact me at 617-4567.

Sincerely yours,

Philip A. Wright
City of West Sacramento

CC: Human Resources Manager, John Perry
Payroll Manager, Karen Bonnett