

# **Office of Audit Services**



## **Public Agency Review**

### **East Kern Airport District**

**Employer Code: 1003  
CalPERS ID: 4129706773  
Job Number: P13-017**

**August 2014**



California Public Employees' Retirement System  
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August 29, 2014

Employer Code: 1003  
CalPERS ID: 4129706773  
Job Number: P13-017

Carrie Rawlings, Business Manager  
East Kern Airport District  
1434 Flightline,  
Mojave, CA 93501

Dear Ms. Rawlings:

Enclosed is our final report on the results of the public agency review completed for the East Kern Airport District (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: Board of Directors, East Kern Airport District  
Risk and Audit Committee Members, CalPERS  
Matthew G. Jacobs, General Counsel, CalPERS  
Anthony Suine, Chief, BNSD, CalPERS  
Renee Ostrander, Assistant Chief, CASD, CalPERS

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# EAST KERN AIRPORT DISTRICT

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## RESULTS IN BRIEF

The primary objective of our review was to determine whether the East Kern Airport District (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 the requirements of CCR Section 570.5.
- Payrates were incorrectly reported.
- Monetary value of uniforms was not contained in a written labor policy.
- Retired Annuitant was not reported.
- Unused sick leave was not properly certified for two retirees.

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 July 1, 1974 to provide retirement benefits for local miscellaneous employees and local safety members (local firefighters). 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, 2011 through June 30, 2013. The on-site fieldwork for this review was conducted from June 9-11, 2014. The review objectives and a summary of the procedures performed are listed in Appendix A.

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## OFFICE OF AUDIT SERVICES REVIEW RESULTS

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

***Condition:***

The Agency's pay schedule did not identify the position title for every employee position. Specifically the pay schedule in effect during the period under review did not include the Director of Economic Development and Aerospace Growth position. In addition, the Agency's pay schedule only lists a single amount as the minimum payrate and does not identify a maximum payrate. As a result, employee payrates exceeded the amount listed on the 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 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, 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.
- 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).

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***Recommendation:***

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

The Agency should only report payrates that are listed in publicly available pay schedules that have been duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws.

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

***Criteria:***

Government Codes: § 20160, § 20630 § 20636

CCR: § 570.5

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2: The Agency reported incorrect payrates.

**Condition:**

- A. The Agency reported incorrect payrates for three employees who received payrate increases.
- One employee received a payrate increase on February 11, 2013. The monthly payrate increased from \$4,210.27 to \$4,506.67. The Agency incorrectly combined the total earnings of \$4,347.07 from both payrates and used a single line item to report it as the payrate and earnings. The Agency should have reported each payrate and corresponding earnings as separate line items.
  - Another second employee received a payrate increase effective March 26, 2013. The payrate increased from \$5,735.60 per month to \$6,225.60 per month. The Agency incorrectly combined the total earnings of \$5,855.60 from both payrates and used a single line item to report it as the payrate and earnings. In addition to reporting the payrate increase incorrectly, the Agency did not report the increase until the following pay period. Although the increase was effective March 26, 2013, the Agency did not report the payrate increase until the April 2013 pay period. The Agency should have reported each payrate and corresponding earnings as separate line items in the March pay period.
  - A third employee received a payrate increase effective May 7, 2013. The payrate increased from \$3,745.73 per month to \$3,916.06 per month. The Agency did not report the payrate increase to CalPERS. The employee retired June 28, 2013. As a result, the Agency under reported payrate and earnings for this employee.

If a member works in more than one position or receives a raise in the middle of a pay period, amounts earned under each payrate should be reported separately. Payrate is an important factor in computing a member's retirement allowance because the service credit and final compensation are directly related to the payrate and earnings reported for a member.

- B. Additionally, one employee received a payrate increase of 18 percent. The employee handbook limits the maximum merit increases by five percent. Although the Agency stated the employee's payrate increase was included in the Agency's budget, there was no indication within the budget that the employee received a payrate increase of 18 percent.

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***Recommendation:***

The Agency should ensure that payrates are reported correctly 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, § 20630, § 20636(b)(1),



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**3:** The monetary value of uniforms reported to CalPERS was not contained in a written labor policy.

***Condition:***

The Agency's written labor policy did not address the monetary value of uniforms and its conditions for payment. Specifically, the Agency provides a monthly Uniform Allowance of \$23.40 to Fire and Maintenance employees required to wear uniforms. The Agency reported the Uniform Allowance as special compensation but did not include the conditions for payment in a written labor policy as required. . Government Code Section 20636(c)(6) requires that the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation. Additionally, the conditions for payment of the uniforms, including, but not limited to, eligibility for, and amount of, was not contained in a written labor policy.

***Recommendation:***

The Agency should ensure the monetary value and conditions for payment of uniforms is contained in a written labor policy or agreement.

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

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4: The Agency did not report a retired annuitant to CalPERS.

***Condition:***

The Agency did not report the hours worked and earnings paid to a retired annuitant in my|CalPERS to allow for monitoring the 960-hour limit per fiscal year. Specifically, a former Fire Chief who retired on December 31, 2010 was hired by the Agency as a retired annuitant on January 25, 2011. The retired annuitant worked for the Agency until March 12, 2012. Although the retired annuitant did not exceed 960 hours in a fiscal year, the Agency did not report the hours and compensation of the retired annuitant in my|CalPERS as required.

***Recommendation:***

The Agency should enroll and report the retired annuitant hours and earnings in my|CalPERS pursuant to Government Code Section 20121.

The Agency should work with CalPERS Benefit Services Division and CASD to make the necessary adjustments to the member's account, if any, pursuant to Government Code Section 20160.

***Criteria:***

Government Codes: § 20121, § 20122, § 20160, § 20221(b), 21220, § 21221, § 21224

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**5:** The Agency did not properly certify the retiree's unused sick leave.

***Condition:***

The Agency incorrectly reported the unused sick leave balance for two retirees. Specifically, one retiree cashed out all unused sick leave at retirement. However, the Agency incorrectly certified 72 days to CalPERS. The second retiree accumulated 847.64 hours of unused sick leave at retirement and cashed out 50 percent of the balance in accordance with the Agency's labor policy. The Agency allows the cash out of unused sick leave and considers any remaining balance as forfeited. However, the Agency incorrectly certified 52.98 days or 423.82 hours to CalPERS. Retiring members are eligible for additional service credit for unused sick leave accrued by the member during the normal course of employment. The total number of unused sick leave hours at retirement is converted to days to determine additional service credit.

***Recommendation:***

The Agency should ensure the correct amount of unused sick leave for retiring members is reported 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, § 20965

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## 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  
Edward Fama, Auditor  
Patrick McCasland, CPA, Auditor

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# **APPENDIX A**

## **OBJECTIVES**

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## 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, 2011 through June 30, 2013. This review did not include an assessment as to whether the Agency is a "public agency", and expresses no opinion or finding with respect to whether the Agency is a public agency or whether its employees are employed by a public agency.

## 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.

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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 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.

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# APPENDIX B

# AGENCY RESPONSE

**NOTE:** The names of individuals mentioned in the Agency's response were intentionally omitted from this appendix.



# MOJAVE

AIR & SPACE PORT

July 24, 2014

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

CALPERS ID: 4129706773

Dear Ms. Junker,

This is a response to the draft report on the compliance review regarding East Kern Airport District's contract with the California Public Employees' Retirement System.

1. The Agency's pay schedule did not meet the requirements of CCR section 570.5.
  - a. Our current pay schedule has the starting monthly rate. We were not aware it didn't comply until the audit. We have revised our pay schedule and will be going on our next board meeting for approval to meet all the criteria listed on your review results.
2. The Agency reported incorrect payrates.
  - a. We will work with CASD to make the necessary changes.
3. The Value of uniforms reported to CalPERS was not contained in a labor policy or written agreement.
  - a. We are in the process of writing our new labor policy to comply with CCR Section 571. We have a brief section in our employee handbook, but need to give more specifics as indicated.
4. The Agency did not report a retired annuitant to CalPERS.
  - a. We were not aware at the time of reporting hours to CalPERS and will do for any future retired annuitants.
5. The Agency did not properly certify the retiree's unused sick leave.
  - a. On [redacted] we received notice that they gave him credit for the sick leave even though he received it in a 100% cash out as he opted to and we submitted the requested employer certification as instructed by CalPERS to resolve it and sent regular mail. I have attached the copy that we sent in to the office, but according to CalPERS records they haven't received it. I will work with CASD to make any necessary changes/adjustments on the employees impacted.

If you have any additional questions, please let me know.

Thank You,



Carrie Rawlings  
Business Manager