

Office of Audit Services



Public Agency Review

Redwood Empire Municipal Insurance Fund

**CalPERS ID: 5608767926
Job Number: P14-063**

May 2015



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

May 29, 2015

CalPERS ID: 5608767926
Job Number: P14-063

Elissa Alfano, Finance Officer
Redwood Empire Municipal Insurance Fund
414 W. Napa Street
Sonoma, CA 95476

Dear Ms. Alfano:

Enclosed is our final report on the results of the public agency review completed for the Redwood Empire Municipal Insurance Fund (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 Young Hamilton

YOUNG HAMILTON, Acting Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Redwood Empire Municipal Insurance Fund
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

REDWOOD EMPIRE MUNICIPAL INSURANCE FUND

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the Redwood Empire Municipal Insurance Fund (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 Government Code and CCR requirements.
- Retired annuitant was unlawfully employed.
- Member reciprocal self-certification was not maintained.
- Unused sick leave balance was not certified.

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 May 1, 1980 to provide retirement benefits for local miscellaneous 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, 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 January 1, 2012 through December 31, 2014. Some of the employees selected were subject to the Public Employees' Pension Reform Act of 2013. 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 all of the Government Code and CCR requirements.

Condition:

The Agency's pay schedule effective July 1, 2014 did not meet all the requirements of the California Government Code and CCR. Specifically, the pay schedule was not duly approved and adopted by the governing body in accordance with requirements of applicable public meetings laws.

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 salary 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 unlawfully employed a retired annuitant.

Condition:

The Agency paid a retired annuitant an hourly payrate that exceeded the maximum hourly payrate listed on the pay schedule. Specifically, the Agency hired a retired annuitant to perform the duties of a Finance Officer/Treasurer, effective November 28, 2012. During Fiscal Year 2012-13, the retired annuitant received an hourly payrate of \$75.00, which exceeded the maximum hourly payrate of \$42.41 for the position of Finance Officer/Treasurer listed on the Agency's pay schedule. Government Code Section 21221 specifies that the compensation for a retired annuitant shall not exceed the maximum monthly base salary paid to other employees performing comparable duties as listed on a publicly available pay schedule, or its hourly equivalent.

Government Code Section 21220 addresses the conditions and consequences of unlawful employment of a person who has been retired under this system. The Government Code states that any retired member employed in violation of this article shall reimburse this system for any retirement allowance received during the period or periods of employment that are in violation of law, pay to this system an amount of money equal to the employee contributions that would otherwise have been paid during the period or periods of unlawful employment plus interest thereon and contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the member is determined by the executive officer to be at fault.

The Government Code also states that any public employer that employs a retired member in violation of this article shall pay to this system an amount of money equal to employer contributions that would otherwise have been paid for the period or periods of time that the member is employed in violation of this article, plus interest thereon and contribute toward reimbursement of this system for administrative expenses incurred in responding to this situation, to the extent the employer is determined by the executive officer of this system to be at fault.

Recommendation:

The Agency should ensure retired annuitants are compensated in accordance with the payrate for employees performing comparable duties as listed on the Agency's pay schedule.

The Agency should work with CalPERS Benefit Services Division (BNSD) to determine the appropriate course of action and make any necessary adjustments to member accounts pursuant to Government Code Section 20160.

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Criteria:

Government Codes: § 20160, § 21220, § 21221, § 21224

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3: The Agency did not maintain the required member reciprocal self-certification.

Condition:

The Agency did not maintain the required member reciprocal self-certification for four employees hired after January 1, 2013. CCR Section 579.3 requires individuals to self-certify in writing as to whether he or she is also a member of another public retirement system and is eligible for reciprocity. Agencies are required to retain the retirement and benefit-related information provided by the newly-hired individuals.

Recommendation:

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains this information.

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, § 20128, § 20160, § 7522.02, § 7522.04
CCR: § 579.3

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4: The Agency did not certify unused sick leave for a retiring member.

Condition:

The Agency did not certify the balance of unused sick leave for a retiring member. Specifically, the retiring member had a balance of 467 hours or 58.375 days of unused sick leave that was not reported 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 the 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 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, § 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 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Young Hamilton

YOUNG HAMILTON, CPA, CIA, CISA
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CISA, Senior Manager
Patrick McCasland, CPA, Auditor
Janice Ng, Auditor

APPENDIX A

OBJECTIVES

REDWOOD EMPIRE MUNICIPAL INSURANCE FUND

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 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 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 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'S WRITTEN RESPONSE



414 W. Napa St. • P.O. Box 885 • Sonoma, CA 95476 • 707.938.2388 • Fax 707.938.0374

<i>Members:</i>	<i>Robnert Park</i>	<i>Associate</i>	<i>Fort Bragg</i>	<i>Willits</i>
<i>Cloverdale</i>	<i>Sebastopol</i>	<i>Members:</i>	<i>Fortuna</i>	<i>Windsor</i>
<i>Cotati</i>	<i>Sonoma</i>	<i>Arcata</i>	<i>Lakeport</i>	
<i>Healdsburg</i>	<i>Ukiah</i>	<i>Eureka</i>	<i>St. Helena</i>	

May 26, 2015

CA Public Employee's Retirement Systems
Office of Audit Services
Attn: Ms. Young Hamilton, Acting Chief
PO Box 942701
Sacramento, CA 94229-2701

Dear Ms. Hamilton:

Enclosed are the audit responses for the Redwood Empire Municipal Insurance Fund under CalPERS ID 5608767926, Job Number P14-063.

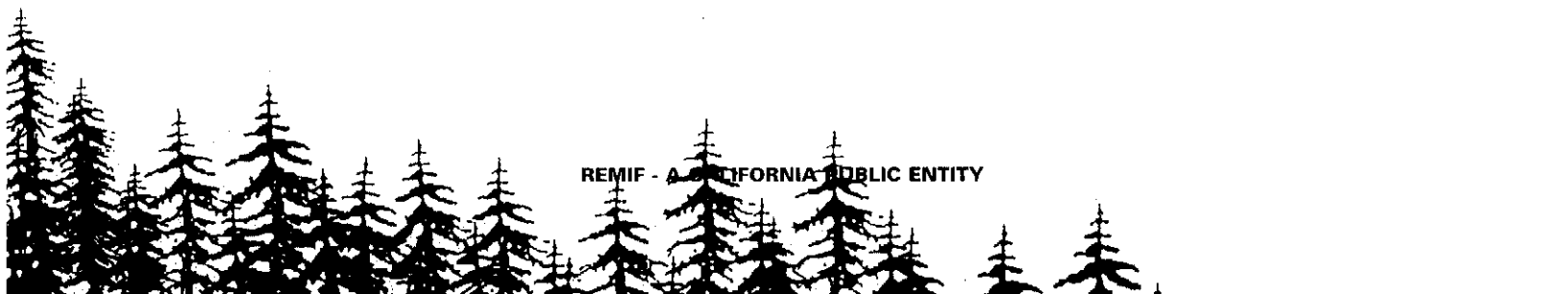
If you need additional information, please contact Elissa Alfano, REMIF Finance Director, at 707-938-2388 ext.16 or ealfano@remif.com.

Sincerely,



Original signed by Mark Ferguson

Mark Ferguson
General Manager
REMIF



**REDWOOD EMPIRE MUNICIPAL
INSURANCE FUND**

**PUBLIC AGENCY REVIEW AUDIT
RESPONSES**

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

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

Response:

Agree. The current REMIF pay schedule was reviewed by the REMIF Executive Board on March 10, 2015. Going forward, a copy of the REMIF pay schedule will be approved at each June Board meeting as part of the budget package. Once approved, the pay schedule will be posted on the REMIF website.

2: The Agency unlawfully employed a retired annuitant.

Recommendation:

The Agency should ensure retired annuitants are compensated in accordance with the pay rate for employees performing comparable duties as listed on the Agency's pay schedule.

The Agency should work with CalPERS Benefit Services Division (BNSD) to determine the appropriate course of action and make any necessary adjustments to member accounts pursuant to Government Code Section 20160.

Response:

Agree. Future retired annuitants, if any, will only be compensated at the pay rate of a comparable position.

3: The Agency did not maintain the required member reciprocal self-certification

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains this information.

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.

Response:

Agree. REMIF has developed an internal form which will be given to all employees hired on or after January 1, 2013, along with the PERS-AESD-139, and keep them on file.

4: The Agency did not certify unused sick leave for a retiring member.

Recommendation:

The Agency should ensure the correct amount of unused sick leave for retiring members is reported to CalPERS.

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.

Response:

Agree. The City of Rohnert Park Payroll Administrator will work with EAMD to correct the retired member's account.