

Rincon Valley Fire Protection District



Public Agency Review



Office of Audit Services

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RINCON VALLEY FIRE PROTECTION DISTRICT

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RESULTS IN BRIEF

We reviewed the Rincon Valley Fire Protection District's (District) enrolled individuals, retirement contributions, member earnings and required retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Special compensation was incorrectly reported in payrate and regular earnings.
- Retroactive earnings adjustment was incorrectly reported.
- Retirement contributions were not submitted within the required timeframe.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS health benefits program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

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The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

The Rincon Valley Fire Protection District was formed on January 15, 1948 by resolution of the Board of Supervisors of the County of Sonoma as a fire protection district under and pursuant to provisions of the Health and Safety Code of the State of California. The District serves taxpayers and residents in a specific unincorporated area of the County of Sonoma and a portion of the Town of Windsor, the boundaries of which are set by resolution of the Board of Supervisors. The District's governmental powers are exercised through a Board of Directors. Memorandum of Understanding (MOU), the District Handbook, and resolutions outline all District employees' salaries and benefits and state the terms of employment agreed upon between the District and its employees.

The District contracted with CalPERS effective April 1, 1977, to provide retirement benefits for local safety (fire) and miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The District did not contract with CalPERS to provide health benefits.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's retirement contract with CalPERS. The objective of this review was limited to the determination that the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on August 10, 2009 through August 12, 2009.

The review period was limited to the examination of sampled records and processes from July 1, 2006 through June 30, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the District had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the District had with its employees.

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- ✓ Interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the District's payroll register with the data reported to CalPERS to determine whether the District correctly reported employees' compensation.
- ✓ Reviewed the District's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the District's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the District's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the District's classification of employees to determine whether the District reported employees in the appropriate coverage groups.
- ✓ Reviewed the District's process for industrial disability retirement determinations and appeals for local safety members.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances for retiring employees.
- ✓ Determined whether the District maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The District may not accurately report compensation to CalPERS.	We reviewed payroll records and compensation reported to CalPERS for a sample of nine employees over two service periods. The service periods reviewed were December 2008 (12/08-0) and June 2009 (6/09-0). The earnings reported to CalPERS were reconciled to the District's payroll records. We determined that the District accurately reported compensation to CalPERS for the sampled employees.	None.
2. The District may not report payrates in accordance with publicly available salary schedules.	We reviewed payrates reported to CalPERS in the June 2009 (6/09-0) service period and reconciled the payrates to the District's public salary information to determine whether payrates for the sampled employees were properly authorized, paid and reported. We found that the employees' payrates were properly authorized and in accordance with publicly available salary information.	None.
3. The District may not accurately report payroll information to CalPERS.	We reviewed the payroll information reported to CalPERS in service periods 12/08-0 and 6/09-0 for nine sampled employees. Our sample testing revealed that the District correctly reported the payroll information to CalPERS except for the following instances:	

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p><u>Special Compensation Included in Regular Earnings</u></p> <p>Special compensation (Fair Labor Standards Act, emergency medical technician pay, educational incentive and longevity pay) was incorrectly included in the reported base payrate and regular earnings for eight of the sampled employees during the 12/08-0 service period. The District should have reported the special compensation separately from regular earnings. Currently, the District reports special compensation separately. This was noted when we reviewed the 6/09-0 service period and found that special compensation was correctly reported separately from base payrate and regular earnings for all nine sampled employees.</p> <p>Government Code, § 20636(a), defines compensation earnable for a member as, “The payrate and special compensation of the member.”</p> <p>Government Code, § 20636(b)(1), states, in part, “Payrate means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours.”</p> <p>Government Code, § 20636(c)(1), defines special</p>	<p>The District should report items of special compensation separately from base payrate and regular earnings.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>compensation as, "A payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions."</p> <p>Government Code, § 20636(c)(2), states, in pertinent part, "Special compensation shall be limited to that which is received by a member pursuant to a labor policy or agreement ...to similarly situated members of a group or class of employment that is in addition to payrate."</p> <p>CalPERS Procedures Manual, page 70, states, in part, "Special compensation...is reported in addition to and separately from payrate."</p> <p><u>Payroll Reporting Elements</u></p> <p>We reviewed the CalPERS payroll listing for service period 6/09-0 and examined the payroll reporting elements. Our testing revealed that the District correctly reported the payroll reporting elements to CalPERS except for one instance where the District reported a retroactive earnings adjustment as a lump sum in the incorrect service period.</p> <p>Specifically, one sampled employee received a longevity pay increase effective April 1, 2009. The District paid the employee \$352.00 in June 2009 for the retroactive</p>	<p>The District should process earnings adjustments as earned by using the appropriate service periods in accordance with the CalPERS Procedures Manual.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments,</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>longevity increase for the months of April and May 2009 (\$176.00 each month). However, the District incorrectly reported the \$352.00 as a lump-sum retroactive payment using service period 6/09-0 and contribution code 16. To report the prior period earnings adjustment, the District should have reported \$176.00 using contribution code 16 and service period 4/09-0 and also reported \$176.00 using contribution code 16 and service period 5/09-0.</p> <p>Government Code, § 20630, states, in pertinent part, “When compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid.”</p>	<p>if any, are needed.</p> <p>A confidential list identifying the individual mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed the payroll information for service periods 12/08-0, 4/09-0 and 6/09-0 and found that payroll contributions were not submitted within required timeframes. Specifically, we noted the following:</p> <ul style="list-style-type: none"> In the 12/08-0 service period (pay period ending December 31, 2008), the CalPERS Summary Report and Payroll Listing (due on January 30, 2009) were dated January 15, 2009, which was timely. The contributions were due on January 15, 2009; however, the contribution check (#1006178) in the amount of \$69,446.25, dated January 13, 2009, cleared on 	<p>The District should ensure retirement contributions are received timely by CalPERS.</p> <p>The District should work with CalPERS ERSD to assess the impact of the late retirement contribution payments and determine what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>January 22, 2009. As a result, the contributions were received seven days after the due date.</p> <ul style="list-style-type: none"> • In the 4/09-0 service period (pay period ending April 20, 2009), the CalPERS Summary Report and Payroll Listing (due on May 30, 2009) were dated May 14, 2009, which was timely. The contributions were due on May 15, 2009; however, the contribution check (#1035100) in the amount of \$65,359.07, dated May 12, 2009 cleared on May 19, 2009. As a result, the contributions were received four days after the due date. • In the 6/09-0 service period (pay period ending June 30, 2009), the CalPERS Summary Report and Payroll Listing (due on July 30, 2009) were dated July 15, 2009, which was timely. The contributions were due on July 15, 2009; however, the contribution check (#1055538) in the amount of \$64,992.10, dated July 16, 2009, cleared on July 28, 2009. As a result, the contributions were received 13 days after the due date. <p>California Code of Regulations, § 565, states, "Member and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer."</p>	

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Excluded Employees</u></p> <p>The contract between the Board of Administration of CalPERS and the Board of Directors of the District excluded local police from CalPERS membership. We found the District did not employ police officers during the review period.</p> <p><u>Optional Membership</u></p> <p>Elective officers who serve on a public commission, board, council, or similar legislative or administrative body who have continuously served in office held on June 30, 1994, have optional membership rights. Elected or appointed officials elected for the first time on or after July 1, 1994, are not eligible for membership. We advised the District that they should offer optional membership to any District Board members who have continuously served in office since June 30, 1994. Our sample testing revealed that District board members were properly excluded from membership.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We reviewed the District's list of temporary part/time employees and determined that all of the individuals</p>	<p>None.</p> <p>None.</p> <p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>worked well under the 1,000 hour membership eligibility requirement and were correctly excluded from membership.</p> <p><u>Independent Contractor</u></p> <p>One individual was selected to determine if an employer/employee relationship existed. We found that the individual provided courier services delivering mail for the City of Santa Rosa's Fire District Stations and the Rincon Valley Fire District Stations. We determined that an employer/employee relationship did not exist and the District correctly excluded this individual from CalPERS membership.</p>	<p>None.</p>
<p>6. The District may unlawfully employ retired annuitants.</p>	<p>The District did not employ retired annuitants during the review period. Therefore, we found no instances where retired annuitants were unlawfully employed.</p>	<p>None.</p>
<p>7. The District may not appropriately report members under the proper coverage group code.</p>	<p>Our sample testing revealed that the District reported individuals under the appropriate coverage group code.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
8. The District may not appropriately process industrial disability retirement determinations and appeals for safety members.	Three industrial disability retirement determinations were made during the review period. We determined that all three determinations were made within the six month requirement. In addition, we found that the District had appeals procedures in place.	None.
9. The District may not accurately report unused sick leave balances for retiring CalPERS members.	Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the District. Our sample testing revealed that the District reported acceptable amounts of unused sick leave for the two sampled retirees.	None.
10. The District may not maintain appropriate ACES security procedures.	<p>We reviewed the security procedures for the District's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users.</p> <p>We found that the District took reasonable precautions to maintain the secrecy of the password and user ID and also maintained the required security document for the one ACES user.</p>	None.

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the District's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

MARGARET JUNKER, CIA, CPA
Interim Chief Auditor,
Office of Audit Services

Date: July 2010
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Terry Heffelfinger
Albert Sim

APPENDIX A

STATUS OF PRIOR REVIEW

**Status of Prior Review conducted January 2000
Rincon Valley Fire Protection District
Employer #1131 - Job Number P09-016**

Prior Review Finding	Prior Review Recommendation	Status of Recommendation
1. Compensation reported incorrectly	The District should immediately begin reporting the monetary value of uniforms, as special compensation, to CalPERS for those members who receive uniforms. The District should work with CalPERS Actuarial and Employer Services Division to correct prior reporting and determine the adjustments, if any, due to not reporting uniform allowance.	Implemented.
2. Industrial disability retirement determination was not made timely	The District should monitor the time requirement for determining disability retirement from the date it was requested by CalPERS. A waiver should be obtained from the member if the delay is imminent.	Implemented.
<p>Conclusion:</p> <p style="text-align: center;">The District implemented the recommendations of the prior review report dated January 2000.</p>		

APPENDIX B

DISTRICT'S WRITTEN RESPONSE



RINCON VALLEY FIRE PROTECTION DISTRICT

8200 Old Redwood Hwy, P.O. Box 530, Windsor, California 95492
Business (707) 539-1801 FAX (707) 539-3046

DOUGLAS WILLIAMS
Fire Chief

JOHN LANTZ
Assistant Chief

June 8, 2010

Margaret Junker, CIA, CPA
Interim Chief, Office of Audit Services
California Public Employees' Retirement System
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Junker,

This letter is to confirm that the Rincon Valley Fire Protection District did receive the draft audit report dated April 2010.

This letter is to also confirm that the Rincon Valley Fire Protection District agrees with the findings in the report.

If you need any further information or assistance in this matter, please feel free to call at 707-539-1801.

Respectfully,

A handwritten signature in black ink, appearing to read "Douglas Williams".

Douglas Williams
Fire Chief