

CITY OF CATHEDRAL CITY

Objective and Scope		
CalPERS ID	Job Number	Contract Date
3286869204	1P23-003	October 10, 1982

The objective of the Office of Audit Services (OFAS) review was to determine whether public agencies (employers) reported Educational Incentive Pay for classic members in compliance with Government Code (GC) section 20636 and Title 2 of the California Code of Regulations (CCR) section 571.

Educational Incentive Pay is an item of special compensation and must meet the requirements of GC section 20636, and the definition and criteria listed in CCR section 571. Specifically, CCR section 571, subdivision (a)(2), defines Educational Incentive Pay as compensation to employees for completing educational courses, certificates and degrees which enhance their ability to do their job. The employer must have a program or system in place to evaluate and approve acceptable courses. Educational Incentive Pay does not include costs of education that is required for the employee's current job classification and reimbursement for an application or test, books, tuition, or travel costs. Additionally, CCR section 571, subdivision (b), outlines that all items of special compensation must be contained in a written labor policy or agreement that has been duly approved and adopted by the employer's governing body. The written labor policy or agreement must indicate the eligibility and conditions for payment of the pay item that must be available to all members in the group or class of employment for work performed during normal hours of employment.

Incorrect reporting of Educational Incentive Pay may result in miscalculation of employer contributions, delays in processing member retirement benefits, inaccurate retirement estimates, incorrect payment of benefits, reduction in benefits, and increased employer administrative costs for processing corrections to all impacted employee accounts for the periods the misreporting occurred.

OFAS' review was limited to examining employer records and a sample of employee records for the period of July 1, 2021 through June 30, 2023. Unless otherwise specified, OFAS did not review the employer's compliance with the Public Employees' Retirement Law (PERL) with regard to any areas outside of the scope described herein, including, but not limited to, other types of compensation, membership enrollment, or employment after retirement. In addition, OFAS did not review sampled employees' job classification minimum qualifications for required education or certification, unless stated in the employer's written labor policy or agreement.

Results in Brief		
No.	Area	Observations
1	Not Reportable - Group or Class of Employment	The Employer reported Educational Incentive Pay for one sampled active employee that was not reportable. Specifically, the Employer reported Educational Incentive Pay that was not available for the group or class. The Employer reported Educational Incentive Pay of \$522.98 and \$46.70 for pay period ending November 12, 2022.

CITY OF CATHEDRAL CITY

No.	Area	Observations
		<p>The Employer's Fire Management Association (FMA) labor policy, effective January 1, 2020, indicated Educational Incentive Pay provisions for fire captains hired on or after November 25, 2012 for obtaining an associate degree or higher; however, the incentive required two years of experience at the officer level. Therefore, the Educational Incentive Pay was not available for other similarly situated employees in the group or class. As a result, the Educational Incentive Pay was not reportable as an item of special compensation. In addition, the Employer's FMA labor policy referenced the State Fire Marshall education and experience requirements and the Employer incorrectly included additional compensation when calculating the reported Educational Incentive Pay for the employee.</p> <p>GC section 20636, subdivisions (c) and (e), and CCR section 571, subdivision (b), states special compensation shall be contained in a labor policy or agreement and be available to similarly situated members of a group or class of employment. If an individual is not part of a group or class, special compensation is limited to that which is received by similarly situated members in the closest related group or class. A group or class of employment means a number of employees considered together because they share similarities in job duties, work location, collective bargaining unit, or other logical work-related grouping. A single employee is not a group or class. Additionally, CCR section 571 states items of special compensation must be contained in an approved written labor policy or agreement, which must indicate conditions of payment for the item of special compensation, including but not limited to, eligibility for and amount, and does not reference to another document in lieu of disclosing an item of special compensation. The Employer was unaware requiring additional eligibility provisions for Educational Incentive Pay created a group or class issue and was unaware their labor policy could not reference another document for an item of special compensation.</p>
2	Not Reportable – Incorrect Type of Special Compensation	<p>The Employer reported Educational Incentive Pay that was not reportable for two sampled active employees and one sampled retired employee. Specifically, the Employer incorrectly included compensation for obtaining a Peace Officer Standard Training (POST) certificate in the reported Educational Incentive Pay. For example, for one active employee, the Employer reported Educational Incentive Pay of \$854 for the pay period ending July 24, 2021; however, of the reported amount, \$427 was for the employee obtaining an executive POST certificate, as indicated in the Employer's Executive, Administrative, Professional,</p>

CITY OF CATHEDRAL CITY

No.	Area	Observations
		<p>Confidential, and Other Particular Employees labor policy, effective July 17, 2019. In addition, the Employer provided an email indicating the executive POST certificate was approved for the employee and did not provide a copy of the POST certificate. POST Certificate Pay is defined as compensation to local police officers, county peace officers, and school police or security officers who obtain a POST certification. As a result, \$427 of the reported amount did not meet the definition of Educational Incentive Pay.</p> <p>CCR section 571, subdivision (a), provides an exclusive list of special compensation items and its definition for each item that must be reported to CalPERS if they are contained in a written labor policy or agreement and defines Educational Incentive Pay as compensation to employees for completing educational courses, certificates and degrees which enhance their ability to do their job. The Employer was unaware POST Certificate Pay should be reported separately.</p>
3	Not Correctly Reported – Incorrectly Calculated	<p>The Employer incorrectly reported Educational Incentive Pay for one sampled active employee. Specifically, the Employer incorrectly included additional compensation in their calculation of Educational Incentive Pay. The Employer reported Educational Incentive Pay of \$819.42 for pay period ending January 22, 2022. The Employer's Professional Firefighters Association labor policy, effective January 1, 2020, identified Education Incentive Pay provisions to calculate Educational Incentive Pay according to base salary. However, the Employer incorrectly calculated the reported Educational Incentive Pay including in the employee's base salary, amounts for Holiday Pay, Fair Labor Standards Act Pay and Acting Pay. As a result, the Employer incorrectly included additional compensation in their calculation of the reported Educational Incentive Pay.</p> <p>CCR section 571 subdivision (b), states all special compensation must be contained in a written labor policy or agreement, which must indicate conditions of payment for the item of special compensation, including but not limited to, eligibility for and amount of special compensation. The Employer stated their definition of base salary includes all additional compensation items paid to the employee.</p>

Recommendation and Criteria

The Employer should ensure Educational Incentive Pay is reported in compliance with GC section 20636, and CCR section 571. The Employer should work with CalPERS Employer

CITY OF CATHEDRAL CITY

Account Management Division to identify all active and retired members impacted and for all impacted members identified, determine the accurate amount of Educational Incentive Pay, and what adjustments, if any, are needed to correct written labor policies or agreements, and/or inaccurately reported Educational Incentive Pay amounts. To the extent that any amounts of pay were improperly included in the retirement allowance of retired members, a correction to the retirement allowance should be made pursuant to GC section 20160.

GC: § 20120, § 20121, § 20122, § 20160, and § 20636
CCR: § 571

Conclusion

OFAS limited this review to the areas specified in the objective and scope section of this report. The review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. Sample testing procedures provide reasonable, but not absolute, assurance that the Employer complied with the specified provisions of the PERL, and the CalPERS contract subject to this review. The results 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 with regard to the results noted within the report. The appropriate CalPERS divisions will notify the Employer of the final determinations and provide appeal rights, if applicable, at that time.

Summarized Response

The Employer agreed with the Observations noted in the report.