

Office of Audit Services



CalPERS

Public Agency Review

Carpinteria Valley Water District

**CalPERS ID: 4189449037
Job Number: P13-068**

September 2014



California Public Employees' Retirement System
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September 29, 2014

CalPERS ID: 4189449037
Job Number: P13-068

Charles Hamilton, General Manager
Carpinteria Valley Water District
1301 Santa Ynez Avenue
Carpinteria, CA 93013

Dear Mr. Hamilton:

Enclosed is our final report on the results of the public agency review completed for the Carpinteria Valley Water District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 2. We appreciate the additional information regarding Finding 2 that you provided in your response; however, after consideration of this information, our recommendations remain as stated 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, Carpinteria Valley Water District
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

CARPINTERIA VALLEY WATER DISTRICT

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Scope.....	1
Office of Audit Services Review Results	2
1: Pay Schedule	2
2: Special Compensation	4
3: Member Contributions	5
4: Retroactive Salary Adjustment	6
Conclusion	7
Objectives	Appendix A
Agency Response.....	Appendix B

CARPINTERIA VALLEY WATER DISTRICT

RESULTS IN BRIEF

The primary objective of our review was to determine whether the Carpinteria Valley Water 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 all of the Government Code and CCR requirements.
- Special compensation for the value of uniforms was not reported.
- Member contributions were incorrectly paid and reported.
- Retroactive salary adjustment was incorrectly reported.

There were no issues identified related to employees subject to the Public Employees' Pension Reform Act of 2013 (PEPRA).

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 March 1, 1958 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 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 October 1, 2010 to September 30, 2013. The on-site fieldwork for this review was conducted from May 12-16, 2014. The review objectives and a summary of the procedures performed are listed in Appendix A.

CARPINTERIA VALLEY WATER DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

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

Condition:

The Agency's pay schedule did not meet the requirements of CCR Section 570.5. Specifically, the pay schedule in effect during the period under review did not include the position titles and payrates of the Assistant General Manager, District Engineer, General Manager, and the Operations and Maintenance Manager. In addition, compensation paid to the Water Treatment Foreman was not within the salary ranges listed for this position on the pay schedule. Further, the pay schedule did not indicate the time base, such as hourly, daily, bi-weekly, monthly, bi-monthly or annually.

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 the 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).

CARPINTERIA VALLEY WATER DISTRICT

Recommendation:

The Agency should ensure employee payrates reported to CalPERS are included in a pay schedule that meets all of the Government Code and CCR requirements.

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

Criteria:

Government Codes: § 20160, § 20630, § 20636
CCR: § 570.5

CARPINTERIA VALLEY WATER DISTRICT

2: The Agency did not report special compensation as required by the CCR.

Condition:

The Agency did not report the value of uniforms, a statutory item of special compensation. Specifically, the Agency incorrectly stopped reporting the value of uniforms for field employees after the pay period ending January 21, 2013. The Agency explained it stopped reporting the value of uniforms due to an Internal Revenue Service Rule. The value of the uniforms reported prior to the pay period ending January 21, 2013 was \$25.40 on a bi-weekly basis. However, the amount was not listed in the Agency's written labor policy. Because the uniforms are not considered solely for personal health or safety, the value of uniforms provided must be reported pursuant to Government Code Section 20636(c)(6), and the amount of the allowance must be included in a written labor policy per CCR 571(b).

Recommendation:

The Agency should report the value of uniforms as special compensation for employees who are required to wear uniforms and ensure the conditions for payment, including but not limited to, eligibility for, and amounts are included in its written labor policy.

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

CARPINTERIA VALLEY WATER DISTRICT

3: The Agency incorrectly paid and reported member contributions.

Condition:

The Agency incorrectly paid and reported member contributions to CalPERS for the pay period ending September 30, 2013. In accordance with the written labor agreement and resolution, the Agency agreed to pay and report four percent of the seven percent member contribution for employees hired on or before February 9, 2011 effective March 3, 2013 through March 1, 2014. The Agency incorrectly paid and reported the entire seven percent member contributions on special compensation (value of Employer Paid Member Contributions), rather than the approved four percent member contribution rate. As a result, the Agency overpaid and reported Employer Paid Member Contributions (EPMC) and under reported member paid contributions.

Recommendation:

The Agency should ensure it pays and reports member contributions as stipulated by its written labor policy and ensure the appropriate resolution is on file with 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, § 20636
CCR: § 569

CARPINTERIA VALLEY WATER DISTRICT

4: The Agency incorrectly reported a retroactive salary adjustment.

Condition:

The Agency incorrectly reported a retroactive salary adjustment for an employee. Specifically, the Agency did not report a retroactive salary adjustment in the correct pay period. Additionally, the Agency incorrectly included \$72.08 of non-reportable compensation (overtime pay) to the salary adjustment. As a result, the retroactive salary adjustment was incorrect. The retroactive salary adjustment should be reported in a separate line item with a monthly payrate of \$4,498.72 and corresponding earnings of \$274.60 for the pay period ending January 23, 2012. Further, the Agency incorrectly reported the employee's payrate as hourly instead of monthly.

Recommendation:

The Agency should ensure that retroactive salary adjustments 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: § 20120, § 20121, § 20160, § 20630, § 20636

CARPINTERIA VALLEY WATER DISTRICT

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
Alan Feblowitz, CFE, Manager
Nuntawan Camyre, Auditor
Aileen Wong, Auditor
Mike Obad, Auditor

CARPINTERIA VALLEY WATER DISTRICT

APPENDIX A

OBJECTIVES

CARPINTERIA VALLEY WATER DISTRICT

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 meeting laws.

CARPINTERIA VALLEY WATER DISTRICT

- ✓ 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.

APPENDIX B

AGENCY RESPONSE



Carpinteria Valley Water District

1301 Santa Ynez Avenue • Carpinteria, CA 93013
Phone (805) 684-2816

BOARD OF DIRECTORS

Matthew Roberts
President
Alonzo Orozco
Vice President
Richard Forde
Polly Holcombe
June Van Wingerden

GENERAL MANAGER

Charles B. Hamilton

Phyllis Miller
CalPERS
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Phyllis Miller:

This is in response to your letter dated August 4, 2014, concerning the findings noted by The Office of Audit Services (OAS). The following are our responses to the findings;

Finding #1: The Agency's pay schedule did not meet all of the requirement of CCR.

Response: We adhered to almost every provision of CCR Section 570.5 regarding pay schedules: the non-exempt employee pay schedule and board packets containing exempt employee salary ranges are available online and are immediately available upon request; all salary ranges are approved by our governing body; and, the non-exempt pay schedule contains the effective date, position titles, and salary ranges. Once PERS gives us the direction to proceed, the salary schedule will immediately be updated per the findings in this report to reflect position titles and salary ranges for exempt employees and will also be revised to show the time basis of the salary ranges.

Finding #2: The Agency did not report special compensation as required by the CCR.

Response: We changed our reporting of uniforms special compensation based on our interpretation that the uniforms were for safety purposes. The safety concerns addressed by our uniforms include the need for employees to enter private property and the fact that the physical location of much of our infrastructure is either under streets or in the public easement at the edge of streets. To address those safety concerns, our uniforms display large reflective district logos, which in our interpretation qualified them as safety-related. The IRS rule was related to but not the determinant of the decision. We are awaiting direction from the PERS programming division direction before implementing corrections to past and future reporting.

Finding #3: The Agency incorrectly paid and reported member contributions.

Response: The member contributions were correctly paid, in that our MOU states 4% employer paid member contributions and we paid that 4% on behalf of employees. The issue is that we did not correctly distribute contribution amounts between employer paid member contributions and tax deferred member contributions. This interpretation is confirmed in an Exit Conference Summary email from Nuntawan Camyre dated 6/27/14: "The Agency reported for all employees the correct member contributions in total, but split the Tax Deferred Member Contributions (under reported) and Employer Paid Member Contributions (EPMC over reported) incorrectly." This is a complex area of reporting so in the fall of 2012 we worked with our regional PERS specialist to develop our contribution reporting methodology. We were therefore disappointed to learn the methodology is incorrect. We are waiting for direction from the PERS programming division regarding changes to the methodology and corrections to prior reported amounts.

Finding #4: The Agency incorrectly reported a retroactive salary adjustment.

Response: We agree that one retroactive salary adjustment in FY11/12 was incorrectly reported.

Please call Assistant General Manager Norma Rosales at 684-2816 x105 if you have specific questions or concerns.

Sincerely,



Charles B. Hamilton
General Manager

CC: Tracey Solomon, Senior Audit Manager, Bartlett, Pringle & Wolf, LLP
Norma Rosales, Assistant General Manager, Carpinteria Valley Water District