

Office of Audit Services



CalPERS

Public Agency Review

Castaic Lake Water Agency

CalPERS ID: 4410276404
Job Number: SP15-042

April 2016



California Public Employees' Retirement System
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April 28, 2016

CalPERS ID: 4410276404
Job Number: SP15-042

Carlos Corrales, Controller
Castaic Lake Water Agency
27234 Bouquet Canyon Road
Saugus, CA 91350

Dear Mr. Corrales:

Enclosed is our final report on the results of the public agency review completed for the Castaic Lake Water Agency (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 1 and Finding 2A. We appreciate the additional information provided in the response. After consideration of this information, we have removed Finding 1 and revised Finding 2A, which is now Finding 1A.

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 Beliz Chappuie

BELIZ CHAPPUIE, Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Castaic Lake Water Agency
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

CASTAIC LAKE WATER AGENCY

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CASTAIC LAKE WATER AGENCY

RESULTS IN BRIEF

The objective of our review was to determine whether the Castaic Lake Water Agency (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), 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.

- Payroll information was incorrectly reported.
- Observation: Agency records did not agree with my|CalPERS information.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, 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 February 16, 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 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 CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's compliance with the PERL and its contract related to compensation and payroll reporting. Additionally, OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013 through June 30, 2014. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency did not correctly report compensation.

Condition:

- A. The Agency over reported regular earnings and special compensation for Treatment Plant Operators who worked a 42 hour work week. Specifically, the Agency's pay schedule effective July 2013 listed a maximum payrate of \$6,552.00 per month for the Treatment Plant Operator position. Although the Agency reported the maximum monthly payrate of \$6,552.00, the Agency paid and reported regular earnings of \$3,175.20 bi-weekly, or \$6,879.60 monthly. As a result, the amount of regular earnings reported was overstated by \$327.60 each month. In addition, the Agency paid and reported the employees Holiday Pay, Fair Labor Standard Act Pay, and Shift Differential as special compensation. These special compensation items were based and calculated on the employees earnings. As a result, the special compensation items were also over reported. Government Code Section 20630 states that regular earnings are to be reported in accordance with Government Code Section 20636 and cannot exceed payrates and special compensation amounts as defined in Government Code Section 20636.

By over reporting the regular earnings and special compensation items for Treatment Plant employees who work a 42 hours per week, employees' retirement allowances will be overstated due to the excessive special compensation reported. Furthermore, the employees will accrue service credit at a faster rate and this can also result in overstating the employees' retirement allowances.

- B. The Agency also incorrectly reported the number of scheduled full-time work week hours for Treatment Plant employees discussed above in Finding 1A. Specifically, the Agency reported 40 hours for Treatment Plant employees assigned to shift work. However, the normal work week for these employees was 42 hours.

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Payrate and earnings are important factors in computing a member's retirement allowance because service credit and final compensation are directly related to these factors.

Further, reporting an incorrect number of scheduled full-time work hours may result in:

- Delays in member retirement processing
- Inaccurate retirement estimates
- Miscalculation of employer contributions
- Incorrect payment of benefits
- Hardship to retired members from a reduction in benefits.

Recommendation:

The Agency should ensure the correct payrates and scheduled full-time work week hours are reported.

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, § 20160, § 20636
CCR: § 570.5

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Observation: The Agency's records do not agree with my|CalPERS information.

OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans*. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active, inactive, or retired), class of employee, and eligible compensation.

OAS identified two employees who had hire dates that were different from the hire dates in my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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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. The procedures performed provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract 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 Beliz Chappuie

BELIZ CHAPPUIE, CPA, MBA
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Senior Manager
Alan Feblowitz, CFE, Senior Manager
Chris Wall, MBA, Senior Manager
Nuntawan Camyre, Lead Auditor
Sean Gerardo, Auditor
Janice Ng, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited to determine whether the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting and enrollment procedures prescribed in the Agency's retirement contract with CalPERS.

Effective January 1, 2013, new enrollments are checked against the PEPRA definition of "new member," regardless of whether the enrollment is for a first time CalPERS member or an existing member. All members that do not fit within the definition of a new member are referred to as "classic members."

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.

METHODOLOGY

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 time records
 - Agency payroll information including Contribution Detail Transaction History reports
 - Documents related to employee payrate, special compensation, and benefits
 - Various other relevant documents
- ✓ Reviewed Agency payroll records and compared the records to data reported to CalPERS to determine whether the Agency correctly reported compensation.

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- ✓ 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.
- ✓ Reviewed CalPERS reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



March 29, 2016

Janice Ng, Program Auditor
Office of Audit Services
CalPERS
P.O. Box 942701
Sacramento, CA 94229-2701

Re: Response by Castaic Lake Water Agency to March 4, 2016 Draft Audit Report

Dear Ms. Ng:

The Agency is in receipt of the Office of Audit Services' ("OAS") March 4, 2016 draft audit report ("Draft Report") related to the Agency's contract with the California Public Employees' Retirement System ("CalPERS"). The Agency appreciates the efforts of OAS in performing its compliance review and the opportunity to comment on the Draft Report. Although our written response was initially due March 21, 2016, the Agency was graciously given an extension until April 4, 2016 to provide this response. We thank you for granting us this additional time to prepare our response.

As detailed below, the Agency disagrees with Findings 1 and 2. It is our hope that this response will provide you with the necessary information to change OAS' determinations with respect to Findings 1 and 2. As such, we respectfully request that you review this response with care and that you consider revising the Draft Report as we request prior to issuing the final audit report.

FINDINGS AND THE AGENCY'S RESPONSE

In order to facilitate your review of the Agency's position with respect to each of the findings noted in the Draft Report, we have organized our comments in chronological order based on the order of the findings.

FINDING 1: THE AGENCY'S PAY SCHEDULE DID NOT MEET ALL OF THE GOVERNMENT CODE AND CCR REQUIREMENTS.

Response:

The Agency disagrees with Finding 1. The Agency's pay schedule is in compliance with the requirements of California Code of Regulations Section 570.5 ("Section 570.5"). Finding 1 implies that there are two separate Treatment Plant employee positions (identified as Treatment Plant Operator on the salary schedule). However, that is not the case. A Treatment Plant Operator, when hired, works a regular schedule of 40

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hours per week while becoming acclimated to the position. Thereafter, the employee's regular schedule increases to 42 hours per week. The pay rate specified for the Treatment Plant Operator position is a monthly rate that applies regardless of whether the employee's regular work schedule is 40 or 42 hours per week. The Board of Directors ("Board") previously approved this position and the potential variance in its regular schedule. Furthermore, the monthly pay rate applicable to the Treatment Plant Operator position in July 2013 was duly approved by the Board in accordance with Section 570.5.

The Agency's Pay Plan sets out the policy applicable to setting pay rates for Agency employees, and specifies that the Agency pays its employees based on monthly salary ranges. The salary ranges are listed in the Agency's pay schedule (referred to by the Agency as the "Classification Plan"), which is updated each Fiscal Year as approved by the Board of Directors ("Board"). The Pay Plan was approved by the Board effective May 28, 2008, consistent with Section 570.5(a)(1). Additionally, the Board approved the Agency's pay schedule for Fiscal Year 2013/2014 at its regular meeting on June 26, 2013. The Agency's pay schedule likewise meets all other requirements of Section 570.5: it (i) identifies every employee position title, (ii) shows the salary range for each position, (iii) indicates that the time base for the salary range is monthly, (iv) is available on the Agency's website, (v) indicates the effective date, and (vi) does not reference any other document in lieu of disclosing the pay rate. The Agency also retains historical pay schedules as required by Section 570.5(a)(7).

Therefore, we respectfully submit that the Agency's pay schedule, including the pay schedule for Treatment Plant employees, meets all requirements of the Government Code and Section 570.5, and that no corrective action is warranted with respect to Finding 1.

To clarify the potential confusion raised by the Agency's regular schedule for the Treatment Plant Operator position, the Agency will add the following footnote to the pay schedule listing for the Treatment Plant Operator position:

"The Treatment Plant Operator may be assigned to a 5/40 (80 hour work shift), 9/80 (80 hour work shift), or 7/12 (84 hour work shift) schedule, depending on tenure and experience. For a Treatment Plant Operator assigned to an 80 hour work shift, hourly rate is computed by multiplying the monthly rate by 12, then dividing by 2,080. For a Treatment Plant Operator assigned to an 84 hour work shift, hourly rate is computed by multiplying the monthly rate by 12, then dividing by 2,184."

Consistent with the foregoing, we respectfully request that the final audit report reflect the Agency's compliance with Section 570.5 and its proposed clarification to the pay schedule.

FINDING 2: THE AGENCY DID NOT CORRECTLY REPORT PAYROLL INFORMATION.

Response:

The Agency disagrees with the determination that it under reported payrates for Treatment Plant employees assigned to shift work as reflected in Finding 2. During the course of the audit, Agency staff were provided with sample calculations purportedly correcting the reporting for the sampled Treatment Plant Operator. The Agency erroneously confirmed that it agreed with the sample calculations.

These sample calculations were incorrectly based on a 2,080 work year such that a Treatment Plant Operator's hourly rate would be calculated as follows:

$$(\text{Monthly Salary} \times 12 \text{ Months} / 2,080 \text{ Hours}) = \text{Hourly Rate}$$

The resulting hourly rate was then multiplied by 84 hours to determine the employee's monthly salary when working a 42 hour work week. However, the proposed calculations improperly determine the initial hourly rate using a 40 hour work week (2,080 hours annually) instead of a 42 hour work week (2,184 hours annually), such that the resulting monthly salary is in excess of the maximum monthly salary approved by the Board. In other words, the proposal applies the 42 hour work week at the wrong place – at the end of the calculation, rather than the beginning. The result is that the Treatment Plan Operator would receive compensation in excess of the maximum monthly pay rate on the applicable pay schedule.

For an employee working a 42 hours per week, the employee's hourly rate should have been reported using the following calculation:

$$(\text{Monthly Salary} \times 12 \text{ Months} / 2,184 \text{ hours}) = \text{Hourly Rate}$$

Although the Agency disagrees with the determination that it under reported payrates for Treatment Plant employees assigned to shift work, it recognizes that it over reported the hourly rate for such employees working a 42 hour work week because it calculated the hourly rate based on a 2,080 hour work year (40 hour work week) when it should have used the 2,184 hour work year (42 hour work week). Agency staff will work with CalPERS to make the necessary corrections to ensure that the hourly rate for Treatment Plant Operators working 42 hours a week is correctly reported to CalPERS.

OBSERVATION: THE AGENCY'S RECORDS DO NOT AGREE WITH MY|CALPERS INFORMATION

Response:

The Draft Report observes that the hire dates of two Agency employees as reflected in Agency records were inconsistent with the hire dates noted in my|CalPERS. Agency

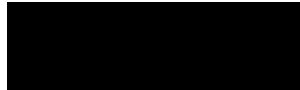
staff confirmed the discrepancy and took the necessary steps to correct the discrepancy during the course of the audit. No further discrepancies were noted.

CONCLUSION

In closing and on the basis of the preceding, we respectfully request that CalPERS include an acknowledgment in the final audit report reflecting the Agency's compliance with Section 570.5 and its proposed clarification with respect to Finding 1. We further request that CalPERS revise its findings and recommendations with respect to Finding 2 as discussed above. Finally, we request that you acknowledge the Agency's correction of the discrepancy noted in the Observation.

We thank you for the opportunity to submit this written response and look forward to working with OAS and CASD to ensure that the final recommendations and the implementation of said recommendations are appropriate.

Respectfully submitted,



Original signed by Carlos Corrales

Carlos Corrales
Controller

cc: Carlos Corrales, Controller
Yvonne Johnson, Senior Accounting Technician
Aristea Mantis, Human Resources/Risk Management Supervisor
Isabel C. Safie, BBK