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March 28, 2012

Employer Code: 0381
Job Number: P10-040

Coachella Valley Water District
Katherine Dogbey, Director of Finance
P. O. Box 1058
Coachella, CA, 92236

Dear Ms. Dogbey:

Enclosed is our final report on the results of the public agency review completed for the Coachella Valley Water District. Your agency's written response, included as an appendix to the report, indicates agreement with the issues noted in the report with the exception of Findings 2 and 3. We reviewed the agency's response pertaining to these findings, and the additional information provided subsequent to the response. The findings will remain in the report; however, we have added language to help clarify these issues. 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 Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Honorable Board Directors, CVWD

Office of Audit Services



Public Agency Review

Coachella Valley Water District

**Employer Code: 0381
Job Number: P10-040**

March 2012

COACHELLA VALLEY WATER DISTRICT

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COACHELLA VALLEY WATER DISTRICT

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Coachella Valley Water District's (District) enrolled individuals, member compensation, retirement documentation and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Non-reportable compensation was reported
- Reportable compensation was not reported
- Payrate and earnings were incorrectly reported
- Temporary/part-time employee was not enrolled into CalPERS membership in a timely manner
- Retired annuitant's rate of pay was excessive

The pertinent sections of California Government Code and California Code of Regulations for each finding are listed in Appendix C.

DISTRICT BACKGROUND

The Coachella Valley Water District was organized under the County Water District Act provisions of the State Water Codes. As a public agency, the Coachella Valley Water District is governed by a five member board of directors. Directors serve four-year terms. The terms are staggered, with three seats determined during one election and the remaining two at the ballot box two years later. The District provides domestic and irrigation water, stormwater protection, agricultural drainage sanitation, groundwater recharge and water conservation services to users within its boundaries.

Memoranda of Understanding (MOU), employment agreements, and working rules and regulations 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 July 1, 1958, to provide retirement benefits for local miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups.

COACHELLA VALLEY WATER DISTRICT

SCOPE

As part of the Board approved plan for fiscal year 2010/2011, OAS reviewed the District's payroll reporting and member enrollment processes as these processes relate to the District's retirement contract with CalPERS. The review period was limited to the examination of sampled records and processes from January 1, 2008, through December 31, 2010. The on-site fieldwork for this review was conducted April 18, 2011, through April 21, 2011. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed in Appendix B.

COACHELLA VALLEY WATER DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The District erroneously reported non-reportable compensation to CalPERS.

Recommendations:

The District should discontinue reporting non-reportable compensation to CalPERS.

The District should work with CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed.

Condition:

The District and the Public Employees Association of Riverside County/Service Employees International Union Local 1997 bargaining unit agreed in a side letter that District employees classified in the position of Lead Night Zanjero II, would receive an additional five percent (5%) for Night Zanjero pay. One employee selected for review received Night Zanjero pay in service period 11/10-4 and the pay was incorrectly reported to CalPERS. Night Zanjero pay does not meet the definition of reportable compensation and therefore is not reportable to CalPERS.

Criteria:

Government Code: § 20636(c)(5), § 20636(c)(6)

California Code or Regulations: § 571, § 571(b), § 571(c)

COACHELLA VALLEY WATER DISTRICT

Finding 2: The District did not report holiday pay and shift differential pay to CalPERS.

Recommendations:

The District should ensure that additional compensation paid to employees who are normally required to work on approved holidays because they work in positions that require scheduled staffing is reported to CalPERS. The additional compensation includes shift differential pay.

The District should work with CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed.

Condition:

OAS selected two employees who were required to work on scheduled holidays in the 12/10-3 service period to determine whether the employees' holiday compensation was correctly paid and reported to CalPERS. The District's Working Rules and Regulations states, "non-exempt employees who are required to work on District observed holiday will receive 1.5 times their regular rate for work performed on the holiday." The Working Rules and Regulations also state that shift differential pay of \$0.75 per hour shall be paid for all hours worked on a scheduled shift, which predominantly falls between 5:00 p.m. and 5:00 a.m.

OAS found the two employees selected for review were paid additional compensation for working on holidays. However, the District did not report the additional holiday compensation to CalPERS as the District incorrectly classified the additional holiday compensation as overtime. In addition, shift differential pay for work performed during the scheduled holidays was also classified as shift differential overtime and was not reported to CalPERS. Specifically:

- For one sampled employee, the District paid and reported regular earnings for 64 hours, plus 16 hours for holidays, which totaled of 80 regular hours. However, the District did not report the additional holiday compensation paid at the time and half rate and the associated shift differential pay for the 16 hours worked during the scheduled holidays, as special compensation to CalPERS.

COACHELLA VALLEY WATER DISTRICT

- For the other sampled employee, the District paid and reported 80 hours as regular earnings in the amount of \$2,349.40, plus 16 hours of additional holiday compensation in the amount of \$469.90 at the straight time rate of pay. The District incorrectly combined the compensation and reported \$2,819.30 as regular earnings, which resulted in the member's regular earnings being over-reported and did not reflect the correct rate of pay for holiday pay. The District did not correctly report the additional holiday compensation at the time and half rate and the associated shift differential pay for the hours worked during the scheduled holidays, as special compensation to CalPERS.

California Code of Regulations Section 571(a)(5) defines holiday pay as additional compensation for employees who are normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays. If these employees are paid over and above their normal monthly rate of pay for approved holidays, the additional compensation is holiday pay and reportable to PERS.

Criteria:

Government Code: § 20636(c)(5), § 20636(c)(6)

California Code or Regulations: § 571, § 571(a)(5), § 571(c)

COACHELLA VALLEY WATER DISTRICT

Finding 3: The District incorrectly reported a retroactive adjustment and earnings to CalPERS.

Recommendations:

The District should correctly report retroactive adjustments and earnings to CalPERS.

The District should work with CalPERS CASD to assess the impact of this incorrect reporting and determine what adjustments are needed

Condition:

Retroactive adjustment incorrectly reported

The District under-reported the monthly payrate for a sampled employee in service period 11/10-4. Specifically, the District reported a monthly payrate of \$10,961.92, which should have been reported as \$11,400.50.

In response to the draft report, the District provided information which showed that an earnings adjustment was reported to CalPERS for the sampled employee in service period 12/10-5. The adjustment amount was \$951.287, which was retroactive to October 14, 2010.

If reported correctly, the adjustment would have corrected the monthly payrate and earnings in service period 11/10-4. However, OAS reviewed the information and found the adjustment was not correctly reported to CalPERS. Specifically, in service period 12/10-5, the District combined the earnings adjustment amount of \$951.287 with regular earnings of \$5,261.8 and reported regular earnings totaling \$6,213.16. The adjustment should have been reported separate from regular earnings. Additionally, the District reported the adjustment under service period 12/10-5, instead of 10/10-4, and reported contribution code 11, instead of 15. As a result of the incorrect reporting, the employee's payrate and earnings were understated from service period 10/10-4, through service period 12/10-4, and his earnings were overstated in service period 12/10-5.

COACHELLA VALLEY WATER DISTRICT

Earnings Were Over Reported

The District's MOU with the Service Employees International Union Local 721 stated that District employees worked an average of 40 hours per week, 80 hours per pay period. OAS found that in service period 11/10-4, the District incorrectly over-reported the earnings for one employee in our sample. Specifically, the District reported regular earnings of \$2,068.77 instead of \$1,880.70. The District incorrectly reported \$188.07 for eight hours paid to the employee for an observed holiday. Thus the regular earnings reported were computed on 88 hours instead of the 80 hours the employee normally works.

Criteria:

Government Code: § 20330(b), § 20636(b)(1), § 20636(d)

CalPERS Procedures Manual: Page 110

COACHELLA VALLEY WATER DISTRICT

Finding 4: The District did not enroll a qualifying temporary/part-time employee into CalPERS membership in a timely manner.

Recommendations:

The District should monitor the hours worked by temporary/part-time employees and enroll employees into CalPERS membership no later than the first day of the first pay period of the month following the month in which 1,000 hours of service were completed.

The District should work with CalPERS CASD to assess the impact of this membership enrollment issue and determine what adjustments are needed.

Condition:

OAS reviewed the hours worked by a temporary/part-time employee during fiscal year 2008/2009 to determine whether membership eligibility requirements were met, and if so, whether the employee was properly enrolled into CalPERS membership. OAS found that the temporary/part-time employee was not enrolled into CalPERS membership in a timely manner. Specifically, the temporary/part-time employee met CalPERS membership by working 1,004 hours by May 4, 2009; however, the employee was not enrolled until July 9, 2009. The employee should have been enrolled into CalPERS membership no later than the first day of the first pay period in June 2009.

Criteria:

Government Code: § 20305

COACHELLA VALLEY WATER DISTRICT

Finding 5: The District paid a retired annuitant at a higher rate of pay than the rate it paid another employee who performed comparable duties.

Recommendations:

The District should ensure that a retired annuitant's rate of pay does not exceed the rate paid to other employees performing comparable duties.

The District should work with CalPERS BNSD to assess the impact of this payrate issue and determine what adjustments are needed.

Condition:

OAS found that a former General Manager retired from the District effective December 31, 2002, and started working for the District as a retired annuitant on January 1, 2003. Documentation provided by the District showed the retired annuitant was paid at a rate of \$141.92 per hour in fiscal years 2008/2009 and 2009/2010. During this period, the District's new General Manager was the highest paid District employee, earning \$116.49 per hour in fiscal year 2008/2009, and \$120.33 per hour in fiscal year 2009/2010. Government Code Section 21224 requires that the rate of pay for retired annuitants not exceed the rate paid by the employer to other employees performing compatible duties.

Criteria:

Government Code: § 21224(a)

COACHELLA 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 B. OAS limited the test of transactions to employee samples selected from the District'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.

Respectfully submitted,

Original Signed by Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: March 2012

Staff: Matt Espenshade, CFE, Supervising Manager

Michael Dutil, CIA, Senior Manager

Alan Feblowitz, Manager

Adeeb Alzanoon

Jose Martinez

COACHELLA VALLEY WATER DISTRICT

APPENDIX A

BACKGROUND

COACHELLA VALLEY WATER DISTRICT

BACKGROUND

California Public Employees' Retirement System

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 Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. In addition, CASD 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. CalPERS Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits.

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.

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.

APPENDIX B

OBJECTIVES

COACHELLA VALLEY WATER DISTRICT

OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the District's retirement and contracts with CalPERS were followed.

This review covers the period of January 1, 2008, through December 31, 2010.

SUMMARY

Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures, reviewed documents, and performed the following procedures. Related sample sizes, sample periods and findings are listed.

- ✓ Reviewed:
 - Provisions of the Contract and contract amendments between the District and CalPERS
 - Correspondence files maintained at CalPERS
 - District's minutes and District Council resolutions
 - District written labor policies and agreements
 - District salary, wage and benefit agreements including applicable resolutions
 - District personnel records and employee hours worked records
 - District payroll information including Summary Reports and PERS listings
 - Other documents used to specify payrate, special compensation and benefits for all employees
 - District ordinances
 - Various other documents as necessary

- ✓ Reviewed District payroll records and compared the records to data reported to CalPERS to determine whether the District reported non-reportable compensation.

COACHELLA VALLEY WATER DISTRICT

Sample Size and Period: Reviewed 20 employees covering two sampled service periods - the first service period in August 2009 (8/09-1) and the second service period in November 2010 (11/10-4).

See Finding 1: The District reported compensation that was not reportable.

See Finding 2: The District did not report additional pay for employees normally required to work during schedule holidays. In addition, the District did not report shift differential pay.

- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to District 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 District's governing body in accordance with requirements of applicable public meeting laws.

Sample Size and Period: Reviewed 19 employees in the second service period in November 2010 (11/10-4).

See Finding 3: The District incorrectly reported salary adjustment and earnings.

- ✓ Reviewed PERS listing reports to determine whether the following payroll reporting elements were reported correctly: contribution code, pay code, work schedule code, service period, and members' contributions.

Sample Size and Period: Reviewed 19 employees in the second service period in November 2010 (11/10-2).

No Finding

- ✓ Reviewed the District's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.

COACHELLA VALLEY WATER DISTRICT

Sample Size and Period: Reviewed one temporary/part-time employee that worked for the District in fiscal year 2008/2009.

See Finding 4: The District did not enroll a temporary temporary/part-time employee into CalPERS membership in a timely manner.

- ✓ Reviewed the District's enrollment practices for retired annuitants to determine if retirees were reinstated when 960 hours were worked in a fiscal year.

Sample Size and Period: Reviewed a sample of three retired annuitants who worked for the District in fiscal years 2008/2009 and 2009/2010.

See Finding 5: The District paid a retired annuitant a rate of pay that exceeded the rate paid to another District employee performing comparable duties.

- ✓ Reviewed independent contractors to ensure that they were properly classified.

Sample Size and Period: Reviewed a sample of five independent contractors that performed work for the District in review period.

No Finding

APPENDIX C

CRITERIA

COACHELLA VALLEY WATER DISTRICT

CRITERIA

Government Code § 20305, subdivision (a), states:

An employee whose appointment or employment contract does not fix a term of full-time, continuous employment in excess of six months is excluded from this system unless: (3)(B) The person... completes 1,000 hours within the fiscal year, in which case, membership shall be effective not later than the first day of the first pay period of the month following the month in which...1,000 hours of service were completed.

Government Code, § 20636 subdivision (b), states:

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. Compensation shall be reported in accordance with Section 20636 and shall not exceed compensation earnable, as defined in Section 20636.

Government Code § 20636, subdivision (b)(1), defines payrate as:

"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, pursuant to publicly available pay schedules.

Government Code § 20636, subdivision (c)(5), states:

The monetary value of a service or noncash advantage furnished by the employer to the member, except as expressly and specifically provided in this part, is not special compensation unless regulations promulgated by the board specifically determine that value to be "special compensation."

Government Code § 20636, subdivision (c)(6), states, in part:

The board shall promulgate regulations that delineate more specifically and exclusively what constitutes "special compensation" as used in this section. ...holiday pay...shall be included as special compensation and appropriately defined in those regulations.

Government Code § 20636, subdivision (d), states:

Notwithstanding any other provision of law, payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny.

Government Code § 21224, subsection (a), states, in part:

COACHELLA VALLEY WATER DISTRICT

A retired person may serve without reinstatement from retirement or loss or interruption of benefits provided by this system upon appointment by the appointing power of a state agency or public agency employer either during an emergency to prevent stoppage of public business or because the retired employee has skills needed in performing work of limited duration. These appointments shall not exceed a total for all employers of 960 hours in any fiscal year, and the rate of pay for the employment shall not be less than the minimum, nor exceed that paid by the employer to other employees performing compatible duties.

California Code of Regulation § 571 provides a list that exclusively identifies and defines special compensation items for members employed by contracting agency and school employers that must be reported to CalPERS if they are contained in a labor policy or agreement.

California Code of Regulations § 571, subdivision (a)(5), defines holiday pay as: Additional compensation for employees who are normally required to work on an approved holiday because they work in positions that require scheduled staffing without regard to holidays. If these employees are paid over and above their normal monthly rate of pay for approved holidays, the additional compensation is holiday pay and reportable to PERS.

California Code of Regulations § 571, subdivision (b), states, in part:
The Board has determined that all items of special compensation listed in subsection (a) are:

- (1) Contained in a written labor policy or agreement;
- (2) Available to all members in the group or class;
- (3) Part of normally required duties;
- (4) Performed during normal hours of employment...

California Code of Regulations § 571, subdivision (c), states:
Only items listed in subsection (a) have been affirmatively determined to be special compensation. All items of special compensation reported to PERS will be subject to review for continued conformity with all of the standards listed in subsection (b).

CalPERS Procedures Manual, Page 110, states, "A single contribution code 05 or 15 entry may be used to report a retroactive salary adjustment covering previous service periods. The service period should reflect the earliest service period involved in the adjustment. The transaction should have the member's new pay rate and the total additional earnings and contributions for the period; i.e., report the difference in earnings and contributions..."

COACHELLA VALLEY WATER DISTRICT

APPENDIX D

DISTRICT'S WRITTEN RESPONSE



Established in 1918 as a public agency
Coachella Valley Water District

Directors:

Peter Nelson, President - Div. 4
John P. Powell, Jr., Vice President - Div. 3
Patricia A. Larson - Div. 2
Debi Livesay - Div. 5
Franz W. De Klotz - Div. 1

Officers:

Steven B. Robbins, General Manager-Chief Engineer
Julia Fernandez, Board Secretary

Redwine and Sherrill, Attorneys

January 16, 2012

Margaret Junker, Chief
Office of Audit Services
P. O. Box 942701
Sacramento, CA 94229-2701

RE: Employer Code 0381
Job Number P10-040

After review of the draft report and subsequent research, we have determined the following from your findings:

- Item 1.** Reporting non-reportable compensation to CalPers
Night Zanjero pay does constitute reportable compensation to CalPERS.
The District is in agreement.

- Item 2.** Holiday and shift differential pay was not reported to CalPERS
The District does not agree with the findings.
We reviewed the two individuals given in the Draft. Holiday pay and shift differential were paid to the employees. Both items were reported and paid to CalPERS.

- Item 3.** Employees with pay rate reporting errors
The pay rate for the individual receiving a salary increase in October not reported. The District does not agree. The differential was reported as a retro payment.

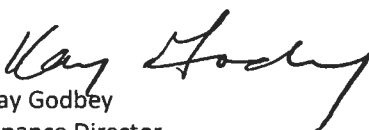
The second employee in question had earnings based on 88 hours. We do agree that it was based on 88 hours not 80 due to his work schedule.

- Item 4.** Employee with membership reporting error
The District agrees that an error was made in enrolling the employee into CalPERS in a timely manner.

- Item 5.** Retired Annuitant's hourly pay rate exceeded that paid to another employee who performed comparable duties.
The District agrees with this finding.

Sincerely,

COACHELLA VALLEY WATER DISTRICT


Kay Godbey
Finance Director