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January 30, 2012

Employer Code: 0459
Job Number: P10-038

Cucamonga Valley Water District
Carrie Corder, Finance Director
P.O. Box 638
Rancho Cucamonga, CA 91729

Dear Ms. Corder:

Enclosed is our final report on the results of the public agency review completed for the Cucamonga Valley Water District. Your agency's written response, included as an appendix to the report, indicates agreement with the issues noted 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 Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Honorable Board Members, Cucamonga Valley Water District

Office of Audit Services



Public Agency Review

Cucamonga Valley Water District

**Employer Code: 0459
Job Number: P10-038**

January 2012

CUCAMONGA VALLEY WATER DISTRICT

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CUCAMONGA VALLEY WATER DISTRICT

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Cucamonga Valley Water District's (District) enrolled individuals, member compensation, required 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:

- Unused sick leave was incorrectly certified.
- Values of uniforms and uniform maintenance were not reported.

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

A confidential list identifying the individuals mentioned in this report has been sent to the District and CalPERS Customer Account Services Division (CASD) and Benefit Services Division (BNSD) as an appendix to this draft report.

DISTRICT BACKGROUND

The Cucamonga County Water District was formed in 1955 under the provisions of the California Water Code. In fiscal year 2003/2004 the name was changed to the Cucamonga Valley Water District. The District is governed by a five member board of directors. The District's major operation is to provide high quality, safe and reliable water and wastewater services, while practicing good stewardship of natural and financial resources. The District is one of the leading retail water providers in the region. Employment agreements 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 November 1, 1961, to provide retirement benefits for local miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as one year for coverage group 70003, and a three-year final compensation period for members of coverage group 70101. The District does not contract with CalPERS to provide health benefits to its employees.

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SCOPE

As part of the Board-approved plan for fiscal year 2010/2011, the 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 on March 28, 2011, through March 30, 2011. The review objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed in Appendix B.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The District did not certify the correct balance of unused sick leave to CalPERS.

Recommendations:

The District should ensure that sick leave is accurately calculated and certified so the retiree receives the appropriate amount of service credit upon retirement. An amended certification form (PERS-BSD-200) should be submitted to CalPERS BNSD in order to adjust incorrect certifications.

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

Condition:

The District did not certify the correct amount of unused sick leave for a retiring employee. Specifically, the District certified an unused sick leave balance of 84.46 days prior to retirement. However, documentation provided by the District showed that the employee initially had an unused sick leave balance of 83.94 days at retirement, and cashed out half of this balance, leaving a reportable unused sick leave balance of 41.92 days. The District did not amend the certified unused sick leave balance by submitting an amended Employer Certification form BSD-200 with the amended unused sick leave balance. As a result, the retiree's service credit was overstated.

Criteria:

Government Code § 20965

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Finding 2: The District did not report the values of uniforms provided and uniform maintenance as special compensation to CalPERS.

Recommendations:

The District should ensure that the values of uniforms provided and the uniform maintenance for all employees required to wear uniforms are reported as special compensation to CalPERS.

The District should work with CalPERS CASD to assess the impact of and to correct this non-reporting issue.

Condition:

The District required uniforms to be worn for employees in the maintenance department and water treatment plant. The District provided the uniforms and the maintenance of the uniforms; however, the District did not report the values to CalPERS as special compensation.

Criteria:

Government Code § 20636(a), § 20636(c)(6)

California Code of Regulations § 571(a)(5)

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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: January 2012

Staff: Michael Dutil, CIA, Senior Manager

Diana Thomas, CIDA, Manager

Nancy Sayers

Carol Northrup

Jose Martinez

CUCAMONGA VALLEY WATER DISTRICT

APPENDIX A

BACKGROUND

CUCAMONGA 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. CASD also 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.

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APPENDIX B

OBJECTIVES

CUCAMONGA 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 contract 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. OAS also reviewed the following documentation:

- ✓ Reviewed:
 - Provisions of the Contract and contract amendments between the District and CalPERS
 - Correspondence files maintained at CalPERS
 - 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 as necessary
 - Various other documents as necessary

OAS performed the following procedures. A description of the procedures and related sample sizes, sample periods and applicable findings for each procedure are indicated.

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

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Sample Size and Period: Reviewed 12 employees covering two sampled service periods - the first service period in July 2010 (7/10-3), and the second service period in December 2010 (12/10-4).

See Finding 2: Values of uniforms and uniform maintenance provided were not reported to CalPERS.

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

No Finding

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

No Finding

- ✓ 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 12 sampled employees in the second service period in December 2010 (12/10-4).

No Finding

- ✓ 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 member contributions.

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Sample Size and Period: Reviewed 12 sampled employees in the second service period in December 2010 (12/10-4).

No Finding

- ✓ Reviewed PERS listing to determine whether contribution codes were reported correctly.

No Finding

- ✓ Reviewed PERS listing to determine whether pay codes were reported correctly.

No Finding

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

Sample Size and Period: Reviewed two temporary/part-time employees in fiscal year 2008/2009.

No Finding

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

Sample Size and Period: Reviewed one retired annuitant that worked during the review period.

No Finding

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- ✓ Reviewed independent contractors to determine if individuals met CalPERS membership eligibility requirements.

Sample Size and Period: Reviewed three independent contractors in the review period.

No Finding

- ✓ Reviewed the District's calculation and reporting of unused sick leave balances.

Sample Size and Period: Reviewed three retiring members covering the review period.

See Finding 1: Unused sick leave balance not properly certified to CalPERS.

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APPENDIX C

CRITERIA

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CRITERIA

Government Code § 20636(a) defines compensation earnable by a member as:
The payrate and special compensation of the member.

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

The board shall promulgate regulations that delineate more specifically and exclusively what constitutes “special compensation” as used in this section. A uniform allowance, the monetary value of employer-provided uniforms, holiday pay, and premium pay for hours worked within the normally scheduled or regular working hours that are in excess of the statutory maximum workweek or work period applicable to the employee under Section 201 et seq. of Title 29 of the United States Code shall be included as special compensation and appropriately defined in those regulations.

Government Code § 20965, states:

A local miscellaneous member and a local safety member, whose effective date of retirement is within four months of separation from employment with the employer which granted the sick leave credit, shall be credited at his or her retirement with 0.004 year of service credit for each unused day of sick leave certified to the board by his or her employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member’s retirement benefit.

California Code of Regulations § 571(a)(5), defines uniform allowance as:

Compensation paid or the monetary value for the purchase, rental, and/or maintenance or required clothing, including clothing made from specially designed protective fabrics, which is a ready substitute for personal attire the employee would otherwise have to acquire and maintain. This excludes items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes.

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APPENDIX D

DISTRICT RESPONSE



CUCAMONGA VALLEY WATER DISTRICT

10440 Ashford Street
Rancho Cucamonga, CA 91730-2799
(909) 987-2591 Fax (909) 476-8032

MARTIN E. ZVIRBULIS
Secretary / General Manager/CEO

December 6, 2011

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

District Response to Draft Report

Dear Ms. Junker,

I have received and reviewed the draft report of the compliance review conducted by your office. On behalf of the Cucamonga Valley Water District (District), I am responding to the two findings found in the November 2011 report:

Finding 1: The District did not certify the correct balance of unused sick leave to CalPERS for the one sampled retiree.

Response: The District acknowledges that a clerical error was made on the Employer Certification form BSD-200 for one retiree in 2008. The District has submitted an amended form PERS-BSD-200 on November 28, 2011. To prevent such errors from occurring in the future, this certification form will be reviewed by at least one other employee for accuracy.

Finding 2: The District did not report the values of uniforms provided and uniform maintenance as special compensation to CalPERS.

Response: The District acknowledges that the values of the uniforms provided were not reported as special compensation prior to this review. At the conclusion of the field audit performed by OAS, the District implemented this finding.

If you have any further questions regarding our audit responses, please do not hesitate to contact me at (909) 483-7435.

Sincerely,

Carrie Corder
Director of Financial and
Administrative Services

KATHLEEN J. TIEGS
President

OSCAR GONZALEZ
Vice President

HENRY L. "HANK" STOY
Director

JAMES V. CURATALO, JR.
Director

RANDALL J. REED
Director