

Office of Audit Services



CalPERS

Public Agency Review

Goleta Sanitary District

CalPERS ID: 2409019970
Job Number: P14-056

July 2015



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

July 24, 2015

CalPERS ID: 2409019970
Job Number: P14-056

Kamil S. Azoury, General Manager
Goleta Sanitary District
One William Moffett Place
Goleta, CA 93117

Dear Mr. Azoury:

Enclosed is our final report on the results of the public agency review completed for the Goleta Sanitary District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Findings 1 and 2. We appreciate the additional information regarding Findings 1 and 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. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Young Hamilton

YOUNG HAMILTON, Acting Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Goleta Sanitary District
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

GOLETA SANITARY DISTRICT

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Scope.....	1
Office of Audit Services Review Results	2
1: Special Compensation	2
2: Retroactive Adjustment	4
3: Part-time Employees	5
4: Reciprocal Self-Certification	6
5: Unused Sick Leave	7
Conclusion	8
Objectives	Appendix A
Agency's Written Response	Appendix B

GOLETA SANITARY DISTRICT

RESULTS IN BRIEF

The primary objective of our review was to determine whether the Goleta Sanitary District (Agency) complied with applicable sections of the California 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.

- Special compensation was incorrectly reported.
- A retroactive salary adjustment was incorrectly reported.
- Part-time employee was not enrolled upon meeting membership eligibility.
- Member reciprocal self-certification was not maintained.
- Unused sick leave was incorrectly reported.

OAS recommends the Agency comply with applicable sections of the California 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 July 1, 1969 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 2014-15, 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 July 1, 2011 through December 31, 2014. The review objectives and a summary of the procedures performed are listed in Appendix A.

GOLETA SANITARY DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency incorrectly reported special compensation.

Condition:

- A. The Agency did not report the monetary value of uniforms provided to Collections, Operations, and Maintenance employees, who were required to wear uniforms. Under the Government Code and CCR, the monetary value of uniforms provided to classic members, including clothing made from specially designed protected fabrics, must be reported as compensation earnable. However, items issued solely for personal health and safety reasons such as hard hats, safety boots and safety glasses are not reportable. OAS found the uniforms provided to classic employees such as navy blue cotton work shirts and pants, along with white and orange work shirts, were not provided solely for safety purposes and therefore must be reported as compensation earnable.

The Agency explained the uniforms were considered personal safety equipment due to employees' exposure to raw sewage and contaminates and therefore should not be reportable as compensation earnable. However, OAS found that the uniforms provided were not issued solely for safety purposes. The Agency's written labor policy stated that "depending upon position responsibility and for health and safety reasons, employees may be provided, at District expense, uniforms and related safety equipment (hard hat/safety boots/safety glasses) for use while on duty." The policy also stated that "employees are not permitted to alter the appearance of provided uniforms, as the purpose of providing uniforms and other safety clothing is to present a standardized, neat appearance to the public and ensure the safety of our employees."

- B. In addition, the Agency's written labor policy containing the provision for uniforms did not meet all of the requirements of CCR 571(b)(1)(B). Specifically, it did not indicate the conditions for payment of the uniforms. The CCR requires that the written labor policy or agreement contains the conditions for payment of the item of special compensation, including, but not limited to, eligibility for, and amount of, the special compensation.

Reportable special compensation is exclusively listed and defined in CCR Section 571. Reportable special compensation is required to be contained in a written labor policy or agreement indicating the eligibility for and amount of special compensation. Also, special compensation must be available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, and historically consistent with prior

GOLETA SANITARY DISTRICT

payments for the job classification. In addition, special compensation must not be paid exclusively in the final compensation period and not be final settlement pay.

Recommendation:

The Agency should report the monetary value of non-safety uniforms provided to classic members as special compensation. The Agency should ensure the conditions for special compensation, including the amount, are contained in a written labor policy or agreement in accordance with the requirements of CCR Section 571.

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: § 20160, § 20630, § 20636
CCR: § 571

GOLETA SANITARY DISTRICT

2: A retroactive salary adjustment was incorrectly reported.

Condition:

The Agency incorrectly reported a retroactive salary adjustment. Specifically, an employee received a pay increase on November 19, 2014 that was retroactive to September 10, 2014. The Agency reported the correct payrate of \$38.04 per hour, and the correct earnings amount of \$644.37. However, the Agency reported the earnings for the incorrect period. Specifically, the Agency reported the earnings for the period September 10 through September 13, 2014. It should have reported the earnings for the period September 10, 2014 through November 19, 2014. Government Code Section 20630 (b) states that an employer shall identify the pay period in which the compensation was earned regardless of when reported or paid.

Compensation is an important factor in computing a member's retirement allowance because final compensation is directly related to payrate and earnings. By not reporting compensation in the period(s) earned, member's retirement allowances may be incorrectly computed.

Recommendation:

The Agency should ensure that retroactive salary adjustments are reported in the pay period(s) earned.

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: § 20160, § 20630, § 20636

GOLETA SANITARY DISTRICT

3: The Agency did not enroll an eligible part-time employee as required.

Condition:

The Agency did not enroll a part-time employee who worked more than 1,000 hours in fiscal year 2013-14. Specifically, the part-time employee exceeded 1,000 hours of service on June 30, 2014 and was not enrolled into membership. Government Code Section 20305 requires employees who complete 1,000 hours of service within a fiscal year to be enrolled into membership 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.

Recommendation:

The Agency should monitor the hours worked by part-time employees to ensure the employees are enrolled when membership eligibility requirements are met.

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: § 20160, § 20305

GOLETA SANITARY DISTRICT

4: The Agency did not maintain the required member reciprocal self-certification.

Condition:

The Agency did not maintain the required member reciprocal self-certification for an employee hired after January 1, 2013. CCR Section 579.3 requires individuals to self-certify in writing as to whether he or she is also a member of another public retirement system and is eligible for reciprocity. Agencies are required to retain the retirement and benefit-related information provided by the newly-hired individual.

Recommendation:

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains the information provided.

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 Code: § 20120, § 20121, § 20128, § 20160, § 7522.02, § 7522.04
CCR: § 579.3

GOLETA SANITARY DISTRICT

5: The Agency reported incorrect unused sick leave balance.

Condition:

The Agency did not certify the correct number of sick leave days for one retiree. The Agency certified a balance of .065 years, equivalent to 16.28 days, of unused sick leave for a retiree. However, the correct balance was 2.04 days. Retiring members are eligible for additional service credit for unused sick leave accrued by the member during the normal course of employment. The total number of unused sick leave hours at retirement is converted to days to determine the additional service credit.

Recommendation:

The Agency should ensure the correct amount of unused sick leave for retiring members is reported to CalPERS.

The Agency should work with EAMD to assess the impact of this incorrect reporting and make any adjustments, if necessary, to the impacted retired member account pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20965

GOLETA SANITARY DISTRICT

CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Young Hamilton

YOUNG HAMILTON, CPA, CIA, CISA
Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Chris Wall, Senior Manager
Antonio Madrigal, Lead Auditor
Terry Heffelfinger, Lead Auditor

GOLETA SANITARY DISTRICT

APPENDIX A

OBJECTIVES

GOLETA SANITARY 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.), California Public Employees' Pension Reform Act of 2013 (PEPRA) 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.

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.

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

GOLETA SANITARY DISTRICT

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 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 unlawful employment occurs.
- ✓ 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.

GOLETA SANITARY DISTRICT

APPENDIX B

AGENCY'S WRITTEN RESPONSE

GOVERNING BOARD

GEORGE W. EMERSON, PRESIDENT
SHARON ROSE
JERRY D. SMITH
STEVEN T. MAJOEWSKY
JOHN R. FOX



A PUBLIC AGENCY
www.goletasanitary.org

**GENERAL MANAGER/
DISTRICT ENGINEER**

KAMIL S. AZOURY, P.E.

June 25, 2015

Ms. Young Hamilton, Acting Chief
Office of Audit Services
P.O. Box 942701
Sacramento, California 94229-2701

Re: Response by Goleta Sanitary District to June, 2015 Draft Audit Report.
CalPERS ID: 2409019970
Job Number: P14-056

Dear Ms. Young Hamilton:

Goleta Sanitary District ("GSD") is in receipt of the June 12, 2015 draft audit report prepared by the California Public Employees' Retirement System ("CalPERS"). GSD's response to the report is as follows:

FINDINGS, RECOMMENDATIONS AND GSD'S RESPONSE

In its draft report, CalPERS made the following proposed findings and corresponding recommendations, which are set forth below followed by GSD's response to each finding and recommendation:

Finding 1: The Agency incorrectly reported special compensation.

Recommendation:

The Agency should report the monetary value of uniforms for classic members as special compensation. The Agency should ensure all special compensation reported to CalPERS is contained in a written labor policy or agreement in accordance with the requirements of CCR 571.

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.

GSD's Response to Finding and Recommendation 1:

GSD does not agree with CalPERS' finding and recommendation regarding the reporting of the monetary value of uniforms and uniform maintenance. GSD and other sanitary agencies consider uniforms to be personal safety equipment which is not reportable compensation. GSD opinion is that the uniforms and the cleaning of them are safety items, employees who wear uniforms are frequently exposed to raw sewage materials which contaminate the uniforms with

blood borne pathogens, toxic chemicals, and other similarly hazardous substances. GSD provides uniforms through a laundering service and the uniforms are the property of this service not the employees. It is GSD's understanding that the position that uniforms are safety equipment and not included as special compensation by CalPERS' Compensation & Employer Review Units is not unprecedented.

Finding 2: A retroactive salary adjustment was incorrectly reported.

Recommendation:

The Agency should ensure that retroactive salary adjustments are reported in the pay period(s) earned.

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.

GSD's Response to Finding and Recommendation 2:

GSD does not agree with CalPERS' findings as incorrectly reported, based upon the instruction given to GSD staff by CalPERS trainers at two consecutive training classes, CalPERS 104 Payroll Contribution Reporting Basics for Public Agencies, etc. and CalPERS 204 Submitting Payroll Corrections with Adjustments for Public Agencies, etc. held at the CalPERS Glendale Regional office May 7, 2013. The value reported was correct. If the CalPERS retro-active reporting procedure has changed within the MyCalPERS system, GSD staff is unaware, and willing to change the current practice should EAMD provide the desired reporting procedure.

Finding 3: The Agency did not enroll an eligible part-time employee as required.

Recommendation:

The Agency should monitor the hours of part-time employees to ensure the employees are enrolled when membership eligibility requirements are met.

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.

GSD's Response to Finding and Recommendation 3:

In discussions with CalPERS auditor, Antonio Madrigal, Jr. while on site, GSD was under the understanding that a part-time employee in excess of 1,000 hours was to be enrolled, not at 1,000 hours. When the auditor discussed his finding GSD staff was eager to correct the issue as any continued activity would lengthen the problem and create a larger liability for both the agency and for the part-time employee for their share of the retirement contribution. GSD staff was instructed to wait for the report and for eventual contact by EAMD to make the necessary adjustments. GSD agrees with this finding and is eager to correct the issue.

Finding 4: The Agency did not maintain the required member reciprocal self-certification.

Recommendation:

The Agency should ensure employees hired on or after January 1, 2013 certify in writing whether they are members of another public retirement system and provide the additional required information if reciprocity exists. Further, the Agency should ensure it retains the information provided.

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.

GSD's Response to Finding and Recommendation 4:

GSD staff first encountered the newly adopted reciprocal self-certification form in September, 2013 when enrolling a new employee with the assistance of MyCalPERS staff. The CalPERS auditor, Antonio Madrigal, Jr. requested to see a copy from the personnel file, the enrollment facts were explained including the fact that the new employee did come from a reciprocal agency. Subsequent to the auditor's request, the reciprocal self-certification form was completed by the employee and placed into his personnel file with a memorandum explaining the facts. GSD agrees with the finding and has already corrected the issue. Each subsequent new hire has a reciprocal self-certification reporting form within their personnel file and the form is part of the new employee packet. GSD believes no further adjustment is necessary regarding this finding.

Finding 5: The Agency reported incorrect unused sick leave balance.

Recommendation:

The Agency should ensure the correct amount of sick leave for retiring members is reported to CalPERS.

The Agency should work with EAMD to assess the impact of this incorrect reporting and make any adjustments, if necessary, to any impacted retired member account pursuant to Government Code Section 20160.

GSD's Response to Finding and Recommendation 5:

GSD Staff was advised of the finding by the CalPERS auditor and reviewed the submission document. Staff incorrectly input hours rather than days when reporting and upon the finding immediately contacted MyCalPERS to make the correction as GSD staff believed that the correction should be made as soon as possible. The CalPERS auditor was informed of this action as it occurred during his site visit and GSD believes no further action is necessary and will in the future be careful to report days, rather than hours.

CONCLUSION

GSD requests that this response be considered by the appropriate CalPERS divisions before issuance of CalPERS' final determinations regarding matters covered by this report. GSD will continue to work with CalPERS staff to address all of the issues contained in this report and to ensure compliance with its contract with CalPERS and CCR.

Response by Goleta Sanitary District to June, 2015 Draft Audit Report

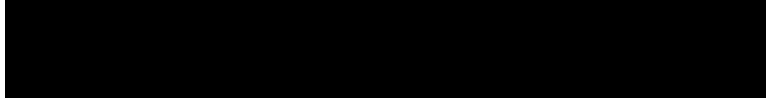
June 25, 2015

Page 4 of 4

Please note that I will be retiring from the District on June 30, 2015 and as such please contact my successor Steve D. Wagner if you have any questions.

Sincerely,

GOLETA SANITARY DISTRICT

A large black rectangular redaction box covering the signature area.

Original signed by Kamil S. Azoury

Kamil S. Azoury
General Manager / District Engineer

cc: Steve Wagner, GSD
Rob Mangus, GSD