

Office of Audit Services



Public Agency Review

Lake County Vector Control District

**CalPERS ID: 3609354665
Job Number: P15-002**

December 2015



California Public Employees' Retirement System
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December 28, 2015

CalPERS ID: 3609354665
Job Number: P15-002

Jacinda Fransulich, Office Manager
Lake County Vector Control District
P.O. Box 310
Lakeport, CA 95453

Dear Ms. Fransulich:

Enclosed is our final report on the results of the public agency review completed for the Lake County Vector Control District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Observation 1. We appreciate the additional information that you provided in your response regarding Observation 1. After consideration of this information, our recommendations remain as stated in the report. However, we added clarifying language to Observation 1.

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 Trustees, Lake County Vector Control 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

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RESULTS IN BRIEF

The objective of our review was to determine whether the Lake County Vector Control District (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.

- Pay schedule did not meet all of the requirements of the Government Code and CCR.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Payrate was incorrectly reported.
- Member reciprocal self-certification information was not maintained.
- Unused sick leave was incorrectly reported.
- Observation: Census Data Reporting.

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 July 1, 1963 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 CalPERS Board of Administration (Board) approved audit plan, OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from July 1, 2011 through June 30, 2014. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

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

Condition:

The Agency's pay schedule did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule in effect during the review period was not duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws. In addition, the pay schedule did not include the position title and payrate for the Field Assistant.

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 purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount identified on a publicly available pay schedule. Per 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; and
- Not reference another document in lieu of disclosing the payrate.

Pay amounts reported for positions that do not comply with the payrate definition and 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). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

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Recommendation:

The Agency should ensure its pay schedule meets all of the Government Code and CCR requirements.

The Agency should work with CalPERS Employer Account Management Division (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, § 20636

CCR: § 570.5

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2: The Agency did not report special compensation in accordance with the Government Code and CCR.

Condition:

- A. The Agency did not report Uniform Allowance as special compensation for classic employees required to wear uniforms. Specifically, the Agency provided Technician employees an annual Uniform Allowance of \$350.00, but did not report it to CalPERS. Uniform Allowance is a statutory item of special compensation that is required to be reported.
- B. 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, the policy did not indicate the amount of compensation paid for the purchase, rental and/or maintenance of required clothing. CCR requires that the written labor policy or agreement contain the conditions for payment including, but not limited to, eligibility for, and amount of, the special compensation.

Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, special compensation is required to be contained in a written labor policy or agreement indicating the eligibility 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 payments for the job classification.

Recommendation:

The Agency should ensure Uniform Allowance is reported as special compensation and the conditions for payment of the uniforms are included in the written labor agreements.

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, § 20636
CCR: § 571

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3: The Agency reported an incorrect payrate.

Condition:

The Agency reported an incorrect monthly payrate for the District Manager/ Research Director in the pay period ended June 7, 2014. Specifically, the Agency reported a monthly payrate of \$10,933.87. The authorized monthly payrate for the District Manager/Research Director was \$10,667.19. Payrate is an important factor in computing a member's retirement allowance because service credit and final compensation are directly related to this factor.

Recommendation:

The Agency should ensure payrates are correctly 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: § 20160, § 20630, § 20636

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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 individuals.

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 any adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 7522.02, § 7522.04
CCR: § 579.3

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

Condition:

The Agency did not certify the correct number of sick leave days for one retiring member. Specifically, the Agency certified that the retiring member had 106 days of unused sick leave at the time of retirement. According to the Agency records, the retiring member cashed out 64.63 hours of sick leave at the time of retirement, which left a balance on 781.87 hours, equivalent to 97.73 days. However, the Agency reported the entire balance of unused sick leave hours prior to the cash out. As a result, the Agency overstated the retiring member's unused sick leave.

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 identify and make any adjustments, if necessary, to any impacted retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20965

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Observation 1: The Agency's administration of contract exclusion for hourly-compensated employees is not clearly defined.

The contract between CalPERS and the Agency excludes employees hired after January 1, 1969 who are compensated on an hourly basis. The Agency did not respond to a CalPERS request in 1996 to provide a list of employee classifications that were compensated on an hourly basis and its interpretation and use of the hourly exclusion. The Agency stated they have never applied the hourly exclusion, as they were not aware they had such an exclusion in their contract. OAS found that the Agency did not apply the hourly exclusion in its contract. For example, two hourly employees exceeded 1,000 hours worked in a fiscal year. One hourly employee was enrolled into CalPERS membership, while the other employee was not enrolled due to a clerical error. OAS recommends the Agency work with EAMD to clearly define the Agency's application of the contract exclusion for hourly-compensated employees to ensure the application is in accordance with Government Code Section 20502.

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Observation 2: The Agency's records did not agree with my|CalPERS information.

OAS reviewed active member census data used to calculate pension liability for the financial reporting purpose under 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 four employees who had hire dates that were different from the hire dates in my|CalPERS. Additionally OAS identified one employee had two active appointment statuses with the Agency in CalPERS with membership dates of June 24, 2012 and July 1, 2012. 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 the CCR.

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
Patrick McCasland, CPA, Auditor

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.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to Agency public salary records to determine whether base payrates reported were

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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 entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide additional service credits for unused sick leave.
- ✓ 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



LAKE COUNTY VECTOR CONTROL DISTRICT

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November 24, 2015

Beliz Chappuie, Chief
Office of Audit Services
PO Box 942701
Sacramento, CA 94229-2701

Dear Ms. Chappuie,

This is in response to the draft Lake County Vector Control District CalPERS Public Agency Review (CalPERS ID: 3609354665, Job Number: P15-002). The District agrees with most of findings and recommendations in the report, but would like to make a few clarifications.

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

The report states that the "pay schedule in effect during the review period was not duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meeting laws." Since the 1970's the Lake County Vector Control District's (referred to after this as District) pay schedule structure, which was approved by the board of trustees in place at that time at an open and public meeting, has remained the same. Changes to the pay schedule occur when a cost of living increase is approved during preliminary and final budget hearings. These hearings are agendized items that take place at appropriately noticed open and public meetings. Additionally, the report mentioned that "the pay schedule did not include the position title and pay-rate for the Field Assistant." Initially the employee who held the position of Field Assistant was employed through an outside agency (Workforce Lake) through their Work Experience (WEX) Program. The employee performed work for the District, but was compensated by the WEX Program. In August of 2013 the District became the employer of record of the Field Assistant employee, and the position was added to the payroll. The District did not add the Field Assistant position to the pay schedule at that time, and that is an oversight that will be corrected. Additionally, the same employee that held the Field Assistant position returned to work for the District at the end of Fiscal Year 2013/2014 after a break in service, but filled the Intern position, which is included on the District's pay schedule.

2. The Agency did not report special compensation in accordance with the Government Code and CCR.

The report states that "The Agency did not report Uniform Allowance as special compensation for classic employees required to wear uniforms. Specifically, the Agency provided Technician employees an annual Uniform Allowance of \$350.00, but did not report it to CalPERS. Uniform Allowance is statutory of special compensation that is required to be reported." The District has always reported its Clothing Allowance to CalPERS. However, when the My/CalPERS system was implemented the District did experience difficulties accurately reporting the special compensation (Clothing Allowance) within the system. In addition, the District regularly updates its Policy Handbook, and will be amending its Uniforms and Protective Clothing Policy to reflect requirements of CCR 571(b)(1)(B).

3. The Agency reported an incorrect pay-rate

The incorrectly reported pay-rate for the District Manager was a data entry error that will be corrected, and the District will take steps to ensure that these types of data entry errors do not occur in the future.

Observation 1: The Agency's administration of contract exclusion for hourly-compensated employees is not clearly defined.

The contract between CalPERS and the Lake County Vector Control District has been in effect since 1963. The current District Manager and Office Manager have been employed by the District since 2008 and 2001 respectively. The exclusion of employees hired after January 1, 1969 who are compensated on an hourly basis has never been employed during the tenure of the of the current District Manager and Office Manager as neither staff member was aware of such an exclusion. In addition, the example cited in the report is incorrect. The example stated that "two hourly employees exceeded 1,000 hours worked in a fiscal year; however, one hourly employee was enrolled into CalPERS membership, while the Agency applied the hourly exclusion to the other hourly employee." The first employee in the example worked a thousand hours of employment without a break in service, while the second employee had a break in service during the fiscal year, and the District made a clerical error when calculating this employees hours worked. The hourly exclusion was not applied to the second employee, and this employee would have been enrolled in CalPERS if employment with the District had continued.

In conclusion, the District is more than willing to work with CalPERS to correct any errors and inconsistencies. The Lake County Vector District takes its responsibility to provide timely and accurate information to CalPERS very seriously, and is mindful of the fact that this information affects its staff member's pension benefits. If you require any further information please don't hesitate to contact me.

Sincerely,

Jacinda Fransulich
Office Manager

Original signed by Jacinda Fransulich