

Office of Audit Services



CalPERS

Public Agency Review

San Luis Water District

CalPERS ID: 4720247681
Job Number: P14-049

May 2015



California Public Employees' Retirement System
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May 29, 2015

CalPERS ID: 4720247681
Job Number: P14-049

Linda Bond, Controller
San Luis Water District
P.O. Box 2135
Los Banos, CA 93635

Dear Ms. Bond:

Enclosed is our final report on the results of the public agency review completed for the San Luis Water District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for one of the two employees identified in Finding 2. We appreciate the additional information regarding Finding 2 that you provided in your response. After review of this information, we removed the one employee from the finding.

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, San Luis Water 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 primary objective of our review was to determine whether the San Luis Water District (Agency) complied with applicable sections of the California Government Code, 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.
- Holiday Pay was not reported as special compensation.
- Member reciprocal self-certification was not maintained.
- Part-time employees were not enrolled when membership eligibility requirement was met.
- Retired annuitant's information was not reported as required.

OAS recommends the Agency comply with applicable sections of the California Government Code, 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 March 1, 1973 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 June 30, 2014. Some of the employees selected were subject to the Public Employees' Pension Reform Act of 2013. The review objectives and a summary of the procedures performed 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 effective October 1, 2013 did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule was not duly approved by the governing board and did not indicate a time base for the payrates. In addition, the pay schedule identified the Maintenance/Relief System Operator position twice with different payrates.

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). There are no exceptions included in Government Code Section 20636(b)(1). When an employer does not meet the requirements for a publicly available salary 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 Holiday Pay as special compensation.

Condition:

The Agency did not report special compensation of Holiday Pay earned by one employee who worked on a holiday during the pay period ending May 31, 2014. The employee was required to work without regard to holidays and received additional compensation. However, the additional compensation of Holiday Pay was not reported to CalPERS. Pursuant to the Government Code and CCR, Holiday Pay is a statutory item and should have been reported to CalPERS as 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 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. In addition, special compensation must not be paid exclusively in the final compensation period and not be final settlement pay.

Recommendation:

The Agency should ensure Holiday Pay is reported as special compensation.

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 did not maintain the required member reciprocal self-certification.

Condition:

The Agency did not maintain the required member reciprocal self-certification for one employee hired on October 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 to 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 this information.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20128, § 20160, § 7522.02, § 7522.04
CCR: § 579.3

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4: The Agency did not enroll and report part-time employees when membership eligibility requirements were met.

Condition:

The Agency did not enroll two part-time employees when membership eligibility requirements were met during fiscal year 2012-13. Specifically, one part-time employee completed 1,000 hours during the pay period ending December 31, 2012, but was not enrolled into membership until March 1, 2014. Another part-time employee completed 1,000 hours in the pay period ending January 15, 2013, but was not enrolled into membership.

Government Code Section 20305 requires employees who complete 1,000 hours 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 and enroll employees 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

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5: The Agency did not enroll and report retired annuitant information as required.

Condition:

- A. The Agency did not report the hours worked and earnings paid to a retired annuitant in my|CalPERS to allow for monitoring the 960-hour limit. Specifically, the Agency hired the retired annuitant on November 14, 2012. Although the retired annuitant did not exceed 960-hours in a fiscal year, the Agency did not report the hours and compensation of the retired annuitant in my|CalPERS as required.
- B. The Agency did not separate an employee from membership after the employee retired on November 1, 2012. The permanent separation date must be reported as the day after the last day an employee works for an agency, which is often the day after the last day on payroll. The permanent separation date will frequently be the same day as a member's retirement date or start date of a new appointment. It is imperative that the Agency follows this important business rule to avoid transaction errors due to automatic system validations.

Recommendation:

The Agency should ensure retired annuitants are enrolled and are reporting hours and earnings.

The Agency should ensure employee separation dates are reported in my|CalPERS.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20122, § 21220, § 21224

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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. 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
Alan Feblowitz, CFE, Senior Manager
Diana Thomas, CIA, CIDA, Senior Manager
Dennis Szeto, Auditor

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APPENDIX A

OBJECTIVES

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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.) 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.

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 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.

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- ✓ 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.

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APPENDIX B

AGENCY RESPONSE

Note: The Agency provided an attachment to the response that was intentionally omitted from this appendix. Additionally, the names of individuals mentioned in the Agency's response were redacted and intentionally omitted from this appendix.

Chris Hurd
President

Bill Diedrich
Vice President

Mike Wood
Tax Assessor/Collector



Tom Teixeira
Secretary/Treasurer

Grant Craven
Director

Lon Martin
General Manager

May 14, 2015

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

Dear Mrs. Hamilton,

We have received the draft report on your compliance review and agree with the findings with one exception. [REDACTED] did not work on the holiday in question. His time card is enclosed showing that, although he did receive holiday pay, it was because that was his regular day off and he did not work.

We will implement all the other recommendations listed in the report and thank you for your assistance with this review. We will contact your office once we receive the final report for assistance in implementing and correcting these findings.

Respectfully,

[REDACTED]

Original signed by Linda M. Bond

Linda M. Bond
Controller

LMB:kb

Enclosure

Cc: Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Chief, EAMD, CalPERS
Carene Carolan, Chief, MAMD, CalPERS
Dennis Szeto