

# **Office of Audit Services**



# **CalPERS**

## **Public Agency Review**

# **Association of California Water Agencies-Joint Powers Insurance Authority**

**CalPERS ID: 3411454435  
Job Number: P14-037**

**March 2015**



California Public Employees' Retirement System  
Office of Audit Services  
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Sacramento, CA 94229-2701  
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March 27, 2015

CalPERS ID: 3411454435  
Job Number: P14-037

Dianna Sutton, Finance Manager  
Association of California Water Agencies – Joint Powers Insurance Authority  
P.O. Box 919082  
Roseville, CA 95661-9082

Dear Ms. Sutton:

Enclosed is our final report on the results of the public agency review completed for the Association of California Water Agencies – Joint Powers Insurance Authority (Agency). Your 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. 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, ACWA – Joint Powers Insurance Authority  
Risk and Audit Committee Members, CalPERS  
Matthew G. Jacobs, General Counsel, CalPERS  
Diane Alsup, Interim Chief, BNSD, CalPERS  
Anthony Suine, Interim Chief, CASD, CalPERS  
Renee Ostrander, Chief, EAMD, CalPERS

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# ACWA - JOINT POWERS INSURANCE AUTHORITY

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## RESULTS IN BRIEF

The primary objective of our review was to determine whether the Association of California Water Agencies – Joint Powers Insurance Authority (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 requirements of the Government Code and CCR.
- Payrate was incorrectly reported.
- Special compensation was not reported as earned.

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 May 1, 1980 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 requirements of the Government Code and CCR.

***Condition:***

The Agency's pay schedule in effect as of pay period ending June 21, 2014 did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule did not identify the General Counsel position and salary range.

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 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).

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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 Customer Account Services Division (CASD) to make any adjustments, if necessary, to 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 reported an incorrect payrate.

***Condition:***

The Agency incorrectly reported the payrate for an employee in pay period ending June 21, 2014. Specifically, the Agency reported the employee's monthly payrate of \$11,333.33 as an hourly rate of pay.

Payrate is an important factor in computing a member's retirement allowance because service credit and final compensation are directly related to the payrate and earnings reported for a member.

***Recommendation:***

The Agency should ensure that payrates are reported correctly.

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

***Criteria:***

Government Codes: § 20120, § 20121, § 20160, § 20636

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**3:** The Agency did not correctly report special compensation.

***Condition:***

The Agency incorrectly reported an employee's bonus as a lump sum instead of in the periods earned. Agency employees are eligible for bonuses based on their annual job performance evaluation. OAS found that the Agency Chief Executive Officer received an excellent job performance rating on December 2, 2013 and was awarded a bonus. However, the Agency reported the bonus as a lump sum instead of reporting the annual bonus in the periods earned. Pursuant to Government Code Section 20636(c)(3), the Agency shall identify the pay period(s) in which special compensation was earned.

***Recommendation:***

The Agency should ensure special compensation is reported in the pay periods it was earned.

The Agency should work with CASD to make any adjustments, if necessary, to active and retired member accounts pursuant to Government Code section 20160.

***Criteria:***

Government Codes: § 20160, § 20636  
CCR: § 571



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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

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Alan Feblowitz, CFE, Senior Manager  
Jose Martinez, Lead Auditor  
Marlene Noss, Auditor

# 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.

# **APPENDIX B**

## **AGENCY RESPONSE**



March 9, 2015

Young Hamilton, Acting Chief  
CalPERS  
PO Box 942701  
Sacramento, CA 94229-2701

**JOINT POWERS**  
INSURANCE AUTHORITY

Dear Ms. Hamilton:

P. O. Box 619082  
Roseville, CA 95661-9082

Thank you for the draft report regarding the CalPERS compliance review. We have read your report and agreed with the results of the review. It is our goal to be in compliance with CalPERS.

phone  
916.786.5742  
800.231.5742

We have read and implemented the requirements of the "Pay Schedule".

direct line  
916.774.7050  
800.535.7899

The JPIA has corrected the "Pay Rate" for the employee noted in the review.

fax  
916.774.7040

Concerning the "Special Compensation", the JPIA will work with CalPERS staff, as directed, to resolve this issue.

[www.acwajpia.com](http://www.acwajpia.com)

We appreciate and commend your staff as they have been very professional, knowledgeable, and helpful to us in the review process.

**President**  
E.G. "Jerry" Gladbach

Sincerely,

**Vice President**  
Tom Cuquet

Original Signed By Walter A. Sells

**Chief Executive Officer**  
Walter "Andy" Sells

Walter A. Sells  
Chief Executive Officer

WAS:bw

**Executive Committee**  
Tom Cuquet  
Joseph Dion  
E.G. "Jerry" Gladbach  
David T. Hodgin  
W.D. "Bill" Knutson  
Melody A. McDonald  
Charles W. Muse  
Kathleen J. Tieg