Office of Audit Services

Public Agency Review

Callayomi County Water District

CalPERS ID: 4612064434
Job Number: P14-044

May 2015

California Public Employees' Retirement System
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May 29, 2015

CalPERS ID: 4612064434
Job Number: P14-044

John Hamner, General Manager
Callayomi County Water District
P.O. Box 623
Middletown, CA 95461

Dear Mr. Hamner:

Enclosed is our final report on the results of the public agency review completed for the Callayomi County Water District (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, Callayomi County 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

CALLAYOMI COUNTY WATER DISTRICT

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CALLAYOMI COUNTY WATER DISTRICT

RESULTS IN BRIEF

The primary objective of our review was to determine whether the Callayomi County 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 Government Code and CCR requirements.
- Special compensation was not reported as required.
- Member reciprocal self-certification was not maintained by the Agency.
- Specific information deemed necessary to validate certified unused sick leave was not provided.

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 October 1, 1999 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 January 1, 2012 through December 31, 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 effective August 1, 2014 did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule did not correctly reflect board approved payrate increases for employees. 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 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 the monetary value of uniforms as special compensation.

Condition:

The Agency did not report the monetary value of uniforms for employees required to wear uniforms. The Agency provided work shirts to the General Manager and the Water Operator and reimbursed the Water Operator for the purchase of pants. However, the Agency did not report the monetary value of shirts and reimbursement of pants as special compensation in accordance with the Government Code and CCR. Specifically, CCR Section 571 requires the monetary value for the purchase, rental, and/or maintenance of required clothing, a statutory item, be reported as special compensation.

Recommendation:

The Agency should immediately begin reporting all statutory items of compensation.

The Agency should work with CalPERS 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 two employees hired on July 8, 2013 and October 11, 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 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

4: The Agency did not provide specific information deemed necessary to validate unused sick leave balances.

Condition:

The Agency did not provide supporting documentation to substantiate the total unused sick leave balance of 1,170 hours for one retiring member. The Agency's payroll system had a default limit of 1,000 hours. Therefore, the Agency could not identify the date when the 1,170 hours were accrued and did not use other methods to track sick leave hours. Retiring members are eligible to receive additional service credit for unused sick leave accrued during the normal course of employment. The total balance of unused sick leave hours at retirement is converted to days to determine the additional service credit.

Due to absent supporting documentation, OAS cannot state with certainty what amount of accrued sick leave was actually earned. In the instance where there is a lack of documentation to support accrued sick leave, unverified amounts will not be considered in the calculation for CalPERS retirement benefits.

Recommendation:

The Agency should retain records to substantiate that correct balance of unused sick leave is certified for retiring members.

The Agency should work with CalPERS 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: § 20221, § 20222.5, § 20965

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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, Senior Manager
Vincent Antolini, Auditor

APPENDIX A

OBJECTIVES

CALLAYOMI COUNTY WATER 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.) 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:
- o Provisions of the contract and contract amendments between the Agency and CalPERS
- o Correspondence files maintained at CalPERS
- o Agency Board minutes and Agency Board resolutions
- o Agency written labor policies and agreements
- o Agency salary, wage and benefit agreements including applicable resolutions
- o Agency personnel records and employee hours worked records
- o Agency payroll information including Contribution Detail Transaction History reports
- o Other documents used to specify payrate, special compensation, and benefits for employees
- o 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.

- ✓ 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

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.

CALLAYOMI COUNTY WATER DISTRICT

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MIDDLETOWN, CA 95461

May 27, 2015

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

Dear Young Hamilton:

This letter is in response to the letter sent to Callayomi County Water District in regards to the CalPers draft report mailed to us May 5, 2015.

We agree with the findings and will work with CalPers to comply with your recommendations. In response to your findings:

1) We will complete and update payroll schedules per the Government Code.
2) We were unaware that it was considered "Special Compensation". Callayomi will work with EAMD to report properly.
3) New hires were not aware of the "Member Reciprocal Self-Certification Form". This form has been completed for [redacted] and has been placed in their Personnel Files. A copy of each is attached for your verification.
4) Validation of unused sick leave – Previous General Manager's sick time was not documented correctly. From here on forward we have made correction to our system and will work with EAMD in substantiating the correct balance is certified.

Should you require additional information, please do not hesitate to contact me.

Sincerely,

[redacted]

Original signed by Janet L. Mondragon

Janet L Mondragón
Board Secretary

Enclosures/Attachments

/jlm