**California Public Employees' Retirement System**
**Office of Audit Services**
P.O. Box 942701
Sacramento, CA 94229-2701
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**www.calpers.ca.gov**

August 22, 2011

Employer Code: 1640
Job Number: P09-061

Cayucos Sanitary District
Lewis Brookins, Administrative Services Officer
200 Ash Avenue
Cayucos, CA 93430

Dear Mr. Brookins:

Enclosed is our final report on the results of the public agency review completed for the Cayucos Sanitary District. Your agency's written response indicates agreement with the issue noted in the report. The written response is included as an appendix to the report. As part of our resolution process, we have referred the issue identified in the report to the appropriate division at CalPERS. Please work with the division to address the recommendation specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Darryl Watson, Chief, CASD, CalPERS
Honorable Board Members, Cayucos Sanitary District

# Office of Audit Services

# Public Agency Review

# Cayucos Sanitary District

**Employer Code: 1640**
**Job Number: P09-061**

**August 2011**

# CAYUCOS SANITARY DISTRICT

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# CAYUCOS SANITARY DISTRICT

## RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Cayucos Sanitary District's (District) enrolled individuals, member compensation, required health and retirement documentation and other documentation for individuals included in test samples. A detail of the finding is noted in the Results section beginning on page three of this report. Specifically, the following finding was noted during the review:

- A retroactive salary adjustment was incorrectly reported to CalPERS.

The pertinent sections of the Government Code and California Code of Regulations for each finding are described in greater detail under Appendix C.

A confidential list identifying the individual mentioned in this report has been sent to the District and CalPERS Customer Account Services Division (CASD) as an appendix to this draft report.

## DISTRICT BACKGROUND

The District began operation in 1942 under the authorization of the State of California's Health and Safety Code (Section 6400 et seq.). Under the direction of a board of directors, elected by the residents of Cayucos, the District provides wastewater disposal services. A Policy Handbook and employment agreements outline all District employees' salaries and benefits and state the terms of employment agreed upon between the District and its employees.

The District contracted with CalPERS effective July 1, 1994, to provide retirement benefits for local miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as twelve months for all coverage groups. The District contracted with CalPERS effective January 1, 1999, to provide health benefits to all eligible employees.

## SCOPE

As part of the Board approved plan for fiscal year 2010/2011, the OAS reviewed the District's payroll reporting and member enrollment processes as these processes relate to the District's retirement and health contracts with CalPERS. The review period was limited to the examination of sampled records and processes from April 1, 2007 through March 31, 2010. The on-site fieldwork for this review was conducted on May 17, 2010, through May 19, 2010. The review

objectives and a summary of the procedures performed, sample sizes, sample periods and findings are listed under Appendix B.

# CAYUCOS SANITARY DISTRICT

## OFFICE OF AUDIT SERVICES REVIEW RESULTS

***Finding 1:*** The District incorrectly reported a retroactive salary adjustment to CalPERS.

***Recommendations:***

The District should ensure that compensation is reported as earned and report retroactive salary adjustments in accordance with CalPERS Procedures Manual guidelines.

The District should work with CalPERS CASD to assess the impact of incorrectly reporting the retroactive salary adjustment and to determine what adjustments are needed.

***Conditions:***

OAS reviewed the CalPERS listing reported by the District for the sampled employees in the selected service periods. The District applied the correct payroll reporting elements for the individuals sampled for service periods 12/08-3 and 3/10-3. However, in December 2008, the District incorrectly reported a retroactive salary increase to CalPERS. Specifically, in service period 12/08-3, one individual received a retroactive salary adjustment in the amount of $51.52 for work performed under a higher payrate. The rate increase covered 56 hours worked in service period 11-08-4. The District incorrectly reported a payrate of $1,523.44 and earnings of $51.52 rather than the actual payrate of $3,300.79 and earnings of $51.52 as a retro adjustment for service period 11/08-4.

***Criteria:***

Government Code: § 20630(b), § 20636(b)(1)

CalPERS Procedure Manual: page 110

# CAYUCOS SANITARY DISTRICT

## CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the District's payroll and health records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code except as noted.

The finding and conclusion outlined in this report are based on information made available or otherwise obtained at the time this report was prepared.

Respectfully submitted,

Original Signed by Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: August 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, Manager
Adeeb Alzanoon
Jose Martinez

# APPENDIX A

## BACKGROUND

# CAYUCOS SANITARY DISTRICT

## BACKGROUND

### California Public Employees' Retirement System

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. The Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Health Account Services (HAS) section, as part of the CASD, provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

# APPENDIX B

## OBJECTIVES

# CAYUCOS SANITARY DISTRICT

## OBJECTIVES

The objectives of this review were to determine:

- Whether the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the District's retirement and health benefits contracts with CalPERS were followed.

This review covers the period of period April 1, 2007 through March 31, 2010.

## SUMMARY

### Procedures, Sample Sizes, Sample Periods, and Findings

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures. OAS also reviewed the following documents:

- Contracts and contract amendments between the District and CalPERS
- Correspondence files maintained at CalPERS
- District Board minutes and District Board resolutions
- District written labor policies and agreements
- District salary, wage and benefit agreements including applicable resolutions
- District personnel records and employee hours worked records
- District payroll information including Summary Reports and PERS listings
- Other documents used to specify payrate, special compensation and benefits for all employees
- Health Benefits Program enrollment records and supporting documentation
- District ordinances as necessary
- Various other documents as necessary

OAS performed the following procedures. Related sample sizes, sample periods and findings are listed.

✓ Reviewed District payroll records and compared the records to data reported to CalPERS to determine whether the District correctly reported employees' compensation.

Sample size and period: Reviewed seven employees covering two sampled service periods - the first service period in December 2008 (12/08-3) and the first service period in March 2010 (3/10-3).

# CAYUCOS SANITARY DISTRICT

**No Finding**

✓ Reviewed payrates reported to CalPERS and reconciled the payrates to District 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 District's governing body in accordance with requirements of applicable public meeting laws.

Sample size and period: Reviewed six sampled employees in the first service period in March 2010 (3/10-3).

**No Finding**

✓ Reviewed PERS listing reports to determine whether payroll reporting elements were reported correctly: Contribution code, pay code, work schedule code, service period, member contributions, and coverage group code.

Sample size and period: Reviewed seven sampled employees in service periods 12/08-3 and 3/10-3.

**See Finding 1:** The District incorrectly reported a retroactive salary adjustment to CalPERS.

✓ Reviewed the District's enrollment practices pertaining to optional members, temporary/part-time employees, retired annuitants, independent contractors, and affiliated entities to determine whether individuals met CalPERS membership requirements.

Sample size and period: Reviewed one temporary/part-time employee in fiscal year 2008/2009. No retired annuitants were found providing services to the district during the review period. No individuals met the selection criteria for independent contractors.

**No Findings**

✓ Reviewed the District's calculation and reporting of unused sick leave balances.

Sample size and period: Reviewed one retiring member in the review period.

**No Finding**

# CAYUCOS SANITARY DISTRICT

- ✓ Reviewed health records to determine whether the District properly enrolled eligible individuals into CalPERS Health Benefits Program.

  Sample size and period: Reviewed four employees and their dependents in the review period.

  **No Finding**

# APPENDIX C

## CRITERIA

# CAYUCOS SANITARY DISTRICT

## CRITERIA

Government Code § 20630, subdivision (b), states:

> When compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid.

Government Code § 20636, subdivision (b)(1), states, in part:

> "Payrate" means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules.

CalPERS Procedure Manual, page 110, states, in part:

> An entry for reporting contributions based on earnings received because of a retroactive salary adjustment can be made using contribution code 05 or 15 to report the salary adjustment covering previous service periods. The service period should reflect the earliest service period involved in the adjustment. The transaction should have the member's new pay rate and the total additional earnings and contributions for the period.

# APPENDIX D

## CAYUCOS SANITARY DISTRICT'S WRITTEN RESPONSE

# CAYUCOS SANITARY DISTRICT

200 Ash Ave. (P.O. Box 333),
Cayucos, California 93430-0333
805-995-3290

**GOVERNING BOARD**
**R. Enns, President**
**H. Fones, Vice-President**
**D. Chivens, Director**
**S. Lyon, Director**
**M. Foster, Director**

August 9, 2011

CalPERS
Office of Audit Services Attn: Adeeb Alzanoon
PO Box 942701
Sacramento, CA 94229-2701

Subject: Response to Audit Finding Cayucos Sanitary District #1640

Dear Ms. Junker:

We received your letter dated July 25th requesting response to the audit finding from Job # P09-061 for the Cayucos Sanitary District. The finding was one retroactive adjustment was incorrectly reported to CalPERS.

Cayucos Sanitary reviewed and agreed with the finding. The retroactive contribution by the employee to PERS was correct but the field for the monthly salary was filled with the bi-weekly salary. Please adjust the item in your records. See Attached

We were all greatly impressed with the professionalism of Mr Adeeb Alzanoon. He was pleasant, patient and communicated well.

Thank You, Cayucos Sanitary District

By: _____ 8/9/11

Lewis Brookins, Administrative Services Officer