Office of Audit Services

Public Agency Review

Denair Community Services District

CalPERS ID: 3228878364
Job Number: P14-076

June 2015

California Public Employees' Retirement System
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June 26, 2015

CalPERS ID: 3228878364
Job Number: P14-076

Debra Schroeder, Staff Services Technician
Denair Community Services District
P.O. Box 217
Denair, CA 95316

Dear Ms. Schroeder:

Enclosed is our final report on the results of the public agency review completed for the Denair Community Services District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 2. We appreciate the additional information regarding Finding 2 that you provided in your response. After consideration of this information, our recommendation remains as stated 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, and 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, Denair Community Services 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

DENAIR COMMUNITY SERVICES DISTRICT

TABLE OF CONTENTS

SUBJECT PAGE

Results in Brief 1

Scope 1

Office of Audit Services Review Results 2

1: Pay Schedule 2

2: Special Compensation 4

3: Payrates 5

4: Member Contributions 6

Observation: Census Data Reporting 7

Conclusion 8

Objectives ..... Appendix A

Agency's Written Response ..... Appendix B

DENAIR COMMUNITY SERVICES DISTRICT

RESULTS IN BRIEF

The primary objective of our review was to determine whether the Denair Community Services District (Agency) complied with applicable sections of the California 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.

- The Agency's pay schedule did not meet all of the Government Code and CCR requirements.
- Special compensation was not reported as required.
- The payrates for an employee were incorrectly reported.
- Member contributions were incorrectly reported.

OAS recommends the Agency comply with applicable sections of the California 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, 1996 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. The review objectives and a summary of the procedures performed are listed in Appendix A.

DENAIR COMMUNITY SERVICES DISTRICT

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 December 16, 2014 did not meet all the requirements of the Government Code and CCR. Specifically, the pay schedule was not approved by the Board and did not list the payrate for the General Manager position.

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.

DENAIR COMMUNITY SERVICES DISTRICT

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

DENAIR COMMUNITY SERVICES DISTRICT

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

Condition:

A. The Agency did not report the monetary value of uniforms for the purchase, rental and/or maintenance of uniforms for classic employees required to wear uniforms. Specifically, the Agency requires maintenance employees to wear uniforms. The Agency provided uniforms for these employees; however, the Agency did not report the monetary value of the uniforms as special compensation. The Government Code and CCR requires compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing, a statutory item, be reported as special compensation.

B. In addition, the Agency's written labor policy containing the provision for uniforms did not meet all the requirements of CCR 571(b)(1)(B). Specifically, it did not indicate the conditions for payment of the uniforms. The CCR requires that the written labor policy or agreement must contain the conditions for payment of the item of special compensation, including, but not limited to, eligibility for, and amount of, the special compensation.

Recommendation:

The Agency should report the monetary value of uniforms provided to classic employees as special compensation.

The Agency should ensure the conditions for the payment of uniforms are contained in a written labor policy or agreement as required by the CCR.

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, § 20160, § 20630, § 20636
CCR: § 571

DENAIR COMMUNITY SERVICES DISTRICT

3: The Agency reported an incorrect payrate.

Condition:

The Agency reported an incorrect payrate for an employee for the pay periods ended April 30, 2014 and May 15, 2014. Specifically, the Agency approved a payrate increase for the employee on April 16, 2014 that increased the employee's monthly payrate from $4,325.00 to $4,622.64. However, the Agency continued to report the payrate as $4,325.00. 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 the correct payrate is reported to 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: § 20160, § 20636

DENAIR COMMUNITY SERVICES DISTRICT

4: The Agency incorrectly reported member contributions.

Condition:

The Agency incorrectly reported member contributions during the pay period ended December 31, 2014. The employees paid the full normal contributions (eight percent). However, the Agency reported the contributions as Employer Paid Member Contributions (EPMC).

Recommendation:

The Agency should ensure member contributions are reported correctly.

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, § 20160

DENAIR COMMUNITY SERVICES DISTRICT

Observation: The Agency's records do 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. The hire dates in my|CalPERS were based on the contract effective date instead of the actual date of hire. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

DENAIR COMMUNITY SERVICES DISTRICT

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
Chris Wall, Senior Manager
Dennis Szeto, Auditor
Christopher Lee, Auditor

APPENDIX A

OBJECTIVES

DENAIR COMMUNITY SERVICES 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.), California Public Employees' Pension Reform Act of 2013 (PEPRA) 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.

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.

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.
- ✓ Reviewed the Agency's records to determine whether member census data agreed with my|CalPERS information.

APPENDIX B

AGENCY'S WRITTEN RESPONSE

Denair Community
Services District

3850 N. Gratton Road
P.O. Box 217
Denair, California 95316

Phone: 209-634-4986
Fax: 209-634-9805

June 9, 2015

California Public Employees Retirement System
Young Hamilton
Office of Audit Services
P. O. Box 942701
Sacramento, CA 94229-2701

RE: Draft Compliance Report
CalPERS ID: 3228878364
Job Number: P14-076

Dear Ms. Hamilton,

We received your letter dated June 2, 2015 requesting a response to the audit finding from Job # P14-076 for The Denair Community Services District. The letter was received in our office on June 8, 2015. Below you will find our responses to the draft compliance report:

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

<u>Agree</u>

The Denair Community Services District's budget has a line item for each position including the General Manager. The Board of Directors approves the salaries in their budget review and approval process in accordance with the requirements of the applicable meeting laws. The District has a separate pay schedule identifying the position title for every employee position, showing pay rates for each position and indicating the time base. This pay schedule will now be duly approved and adopted by the Board as a separate document to the budget, include the General Manager position, indicate the effective date and date of any revisions, and be accessible for public review.

Finding 2: <u>The Agency did not report special compensation in accordance with the Government Code and CCR.</u>

<u>Disagree</u>

The District is seeking reconsideration to this finding. The t-shirts purchased are orange with the District logo on them. The vibrant orange color is to make them more visible for

safety as they often work near and at times in the road. The logo is so that the customers can identify them when they are out in the field. The monetary value of these shirts is minimal. By our estimations, perhaps 5 t-shirts per year, per person, which calculates to 2.71 per payroll.

The District will be working with CalPERS to implement the necessary procedures for the reporting that this will require in our payroll system and also to our Personnel Policies should it be concluded that the opinion of OAS is correct.

Finding 3: The Agency reported an incorrect pay rate.

Agree

We have contacted CalPERS and an adjustment has been made to the pay rate for two pay periods sited.

Finding 4: The Agency incorrectly reported member contributions.

Agree

CalPERS will be contacted to make any necessary changes that are required to correct this.

Observation: The Agency's records do not agree with my/CalPERS information.

OAS made an observation that four employees had hire dates that were different from the hire dates in my/CalPERS. The hire dates in my/CalPERS were based on the contract effective date instead of the actual date of hire.

This has been corrected in the system.

We respectfully submit our responses for your consideration. If you have any questions, please contact me or our General Manager, Gaylon W. Wade at 209-634-4986.

Sincerely,

Original signed by Debra R. Schroeder

Debra R. Schroeder
Staff Services Technician
Denair Community Services District