

Office of Audit Services



Public Agency Review

Sanitary District No.1 of Marin County

**Employer Code: 0063
CalPERS ID: 6650358204
Job Number: P13-013**

April 2014



California Public Employees' Retirement System
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April 18, 2014

Employer Code: 0063
CalPERS ID: 6650358204
Job Number: P13-013

Sanitary District No. 1 of Marin County
Gregory Norby, General Manager
2960 Kerner Blvd.
San Rafael, CA 94901

Dear Mr. Norby:

Enclosed is our final report on the results of the public agency review completed for the Sanitary District No. 1 of Marin County (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 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: Honorable Board of Directors, Sanitary District No. 1 of Marin County
Risk and Audit Committee Members, CalPERS
Gina M. Ratto, Interim General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

SANITARY DISTRICT NO.1 OF MARIN COUNTY

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SANITARY DISTRICT NO.1 OF MARIN COUNTY

RESULTS IN BRIEF

The primary objective of our review was to determine whether the Sanitary District No. 1 of Marin County (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.

- Payrate and earnings were reported incorrectly.
- Special compensation for Acting Pay and Longevity Pay was reported incorrectly.
- Pay schedule did not meet all requirements of CCR section 570.5.
- Retroactive Salary Adjustment was reported incorrectly.
- Eligible employees were not enrolled into CalPERS membership.

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 January 1, 1945 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 2013/2014, OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate 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, 2010 through June 30, 2013. The on-site fieldwork for this review was conducted from August 12, 2013 through August 14, 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

Finding 1: The Agency reported incorrect payrate and earnings.

Condition:

The Agency reported incorrect payrates and earnings for two employees during fiscal year 2012-2013. The Agency should report payrates in accordance with its Board approved salary schedule effective July 1, 2012 through June 30, 2013.

Recommendation:

The Agency should ensure correct payrate and earnings are reported to CalPERS.

The Agency should work with CalPERS Customer Account Services Division (CASD) to determine the impact of this incorrect reporting and make the necessary adjustments to active and retired member accounts pursuant to Government Code section 20160.

Criteria:

Government Codes: § 20160, § 20630 (b), § 20636

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Finding 2: The Agency incorrectly reported special compensation.

Condition:

The Agency incorrectly reported special compensation of Acting Pay and Longevity Pay within base payrate and regular earnings for two employees during fiscal year 2012-2013. Because Acting Pay and Longevity Pay meet the requirements of special compensation in accordance with CCR section 571, they should be reported to CalPERS separately from base payrate and regular earnings.

Recommendation:

The Agency should report special compensation items separately from base payrate and regular earnings.

The Agency should work with CASD to determine the impact of this incorrect reporting and make any necessary adjustments to active and retired member accounts pursuant to Government Code section 20160.

Criteria:

Government Codes: § 20160, § 20630 (b), § 20636
CCR: § 571

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Finding 3: Pay schedule did not meet all requirements of the CCR.

Condition:

The Agency's pay schedule did not meet all the requirements of CCR section 570.5. The fiscal year 2012-2013 pay schedule did not specify a time base such as hourly, daily, bi-weekly, monthly, bi-monthly or annually. In addition, the pay schedule referenced a contract in lieu of identifying the payrate for the general manager position.

For the purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount listed on a publicly available pay schedule. According to CCR section 570.5, a pay schedule must, among other things:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meeting 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.
- Not reference another document in lieu of disclosing the payrate.

Recommendation:

The Agency should work with CASD to ensure that the Agency's pay schedules meet all the requirements of the CCR section 570.5.

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

Criteria:

Government Codes: § 20160, § 20630, § 20636
CCR: § 570.5

SANITARY DISTRICT NO.1 OF MARIN COUNTY

Finding 4: Retroactive salary adjustment was reported incorrectly.

Condition:

The Agency incorrectly reported a retroactive salary adjustment as regular earnings for an employee in October 2012. Specifically, a retroactive salary adjustment in the amount of \$96.50 was incorrectly reported as payrate and regular earnings using the Earned Period Reporting transaction type. As a result, the total earnings paid and reported for the pay period October 6, 2012 through October 19, 2012 was overstated by \$96.50. The Agency should have reported the \$96.50 salary adjustment by using the Retroactive Salary Adjustment transaction type in the period it was earned as required by Government Code section 20630(b).

Recommendation:

The Agency should ensure retroactive salary adjustments are correctly reported to CalPERS.

The Agency should work with CASD to determine the impact of this incorrect reporting and determine the necessary adjustments to the active and retired members' account pursuant to Government Code section 20160.

Criteria:

Government Codes: § 20160, § 20630 (b), § 20636 (b)(1)

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Finding 5: Temporary employees were not enrolled into membership.

Condition:

- A. The Agency did not enroll a temporary employee with prior membership. An employee was hired as a temporary Maintenance Worker on April 30, 2012. This employee had prior membership with another CalPERS employer. As a result, the Agency should have enrolled and reported earnings for the employee immediately upon hire.
- B. The Agency did not enroll a temporary employee hired to work full-time for a period of greater than six months. The Agency had two contracts with the temporary employee that specified the position title and the duration. The first contract engaged the employee in a permanent full-time position as an Accounting Manager for the period of September 9, 2009 to September 9, 2010. The second contract engaged the employee to work in a full-time Business Manager position for the period of June 14, 2010 to June 14, 2011. Employees hired to work full-time for a period greater than six months should be enrolled upon hire.
- C. The Agency did not enroll five temporary employees who met the 1,000-hour membership criteria during fiscal year 2010-2011. 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 immediately enroll employees with prior CalPERS membership and those hired to work full-time for a period greater than six months. In addition, the Agency should monitor the hours worked by temporary/part-time employees to ensure the employees are enrolled into membership no later than the first day of the first pay period of the month following the month which 1,000 hours of service was completed.

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

Criteria:

Government Codes: § 20044, § 20160, § 20305

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CONCLUSION

OAS limited this review to the areas specified in the scope section of this report and in the objectives as 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, California Code of Regulations.

Respectfully submitted,

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Alan Feblowitz, CFE, Manager
Terry Heffelfinger, Auditor
Karen Harlan, Auditor
Aileen Wong, Auditor

SANITARY DISTRICT NO.1 OF MARIN COUNTY

APPENDIX A

OBJECTIVES

SANITARY DISTRICT NO. 1 OF MARIN COUNTY

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 covers the period of July 1, 2010 through June 30, 2013. 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 all 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 meeting laws.

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- ✓ Reviewed CalPERS listing 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 enrollment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ 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'S WRITTEN RESPONSE



ROSS VALLEY SANITARY DISTRICT

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February 21, 2014

California Public Employees' Retirement System
Office of Audit Services
PO Box 942701
Sacramento, CA 94229-2701

Re: Response to Public Agency Review
Employer Code – 0063
CalPERS ID - 6650358204
Job Number – P13-013

Dear Ms. Junker,

The letter is in response to the draft report of the CalPERS review of the Sanitary District No. 1 of Marin County. This response will address each finding and provide further information on the actions the District will take to comply with these findings.

“Finding 1 – The Agency reported incorrect payrate and earnings.” The sample revealed that two employees had incorrect payrates and/or earnings reported.

Response – The District agrees with the finding and will work with CalPERS to ensure that any necessary corrections are made to the payrates or earnings of employees. All payrates and earnings going forward will be in accordance with the Board-approved salary schedules.

“Finding 2 – The Agency incorrectly reported special compensation.” There are two types of pay that were included within the base payrate but should have been reported as special compensation, acting pay and longevity pay.

Response – The District agrees with the finding and will work with CalPERS to ensure that any necessary corrections are made. Acting pay and longevity pay will be reported as special compensation for all current and future employees.

“Finding 3 – Pay schedule did not meet all of the requirements of the California Code of Regulations (CCR).” The schedule did not specify a time base and referenced a contract in-lieu of identifying the payrate of the General Manager.

Response – The District agrees with the finding. The pay schedule has been updated to include the time period, monthly, and the General Managers payrate has been added. No further action needs to occur to correct this finding.

"Finding 4 – Retroactive salary adjustment was reported incorrectly." A retroactive salary adjustment was reported as regular earnings of a subsequent payroll period but should have been reported as a retroactive salary adjustment.

Response – The District agrees with the finding and will work with CalPERS to ensure that any necessary corrections are made. In the case of retroactive payroll adjustments, staff will report these as such and not include in regular earnings.

"Finding 5 – Temporary/part time employees were not enrolled into membership timely." There were employees that met the membership criteria but were not enrolled in CalPERS.

Response – The District agrees with the finding and will work with CalPERS to ensure that any necessary adjustments to the timing of the enrollment of employees is corrected. Going forward, staff will make sure to enroll any eligible employees in a timely manner.

The District is taking the necessary steps to address these findings and will make every effort to comply with the CalPERS retirement contract. We look forward to receiving the final review and appreciate your knowledge and professionalism during this process.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Norby". The signature is fluid and cursive, written over a light blue horizontal line.

Greg Norby
General Manager