

Office of Audit Services



Public Agency Review

Rio Linda Elverta Community Water District

**Employer Code: 1520
CalPERS ID: 3301590511
Job Number: P13-081**

October 2014



California Public Employees' Retirement System
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October 24, 2014

Employer Code: 1520
CalPERS ID: 3301590511
Job Number: P13-081

Marian Henrici, General Manager
Rio Linda Elverta Community Water District
730 L Street
Rio Linda, CA 95673

Dear Ms. Henrici:

Enclosed is our final report on the results of the public agency review completed for the Rio Linda Elverta Community Water District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report. We received and forwarded the additional documents you submitted with your response to the appropriate division for further review.

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 Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Rio Linda Elverta Community Water District
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

RIO LINDA ELVERTA COMMUNITY WATER DISTRICT

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RIO LINDA ELVERTA COMMUNITY WATER DISTRICT

RESULTS IN BRIEF

The primary objective of our review was to determine whether Rio Linda Elverta Community 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 the Government Code and CCR requirements.
- Compensation was incorrectly reported.
- Employer Paid Member Contributions (EPMC) was incorrectly reported.
- Employee with prior membership was not enrolled as required.

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, 1991 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 2013-14, the OAS reviewed the Agency's payroll reporting and member enrollment processes as 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, 2010 through June 30, 2013. Some of the employees selected were subject to the Public Employees' Pension Reform Act of 2013. The on-site fieldwork for this review was conducted from May 13-16, 2014. 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 the Government Code and CCR requirements.

Condition:

The Agency's pay schedule in effect during the 2012-13 fiscal year did not identify the position titles for every employee position as required by CCR. 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.

According to 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.
- 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 all necessary adjustments, if any, to active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636 (a), § 20636 (b)(1), § 20636 (d)

CCR: § 570.5

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2: The Agency incorrectly reported compensation.

Condition:

- A. The Agency did not report compensation in the pay period in which it was earned. Specifically, the Agency reported earnings on a semi-monthly basis to CalPERS. The payroll registers reflected a pay period of May 11-24, 2013; however, the Agency reported the earnings to CalPERS for the pay period of May 16-31, 2013 for all employees. Government Code Section 20630 requires that 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.
- B. The Agency incorrectly subtracted health benefits and social security modification amounts from regular earnings when reporting compensation. Compensation is payment for the members services performed during normal working hours or for time the member is excused from work in accordance with Government Code Section 20630. The Agency should not subtract health benefits and social security modification amounts from the regular earnings reported to CalPERS. However, the Agency should be aware the social security modification amount should be subtracted from earnings when calculating and reporting contribution amounts.
- C. The Agency incorrectly included uniform allowance, an item of special compensation, when reporting earnings. Uniforms should be reported as special compensation, separate from payrate and earnings. In addition, the provisions for payment of uniform allowance were not included in a written labor policy or agreement as required by CCR Section 571.

Recommendation:

The Agency should ensure earnings are reported in the pay period in which it was earned.

The Agency should report the full compensation earnable that a member is paid for services performed during normal work hours.

The Agency should report special compensation separate from payrate and earnings pursuant to CCR 571 and ensure provisions for payment of the uniform allowance are included in its written labor policy or agreement.

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

Criteria:

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

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3: The Agency incorrectly reported Employer Paid Member Contributions (EPMC).

Condition:

The Agency incorrectly reported EPMC and did not have a certification for Memorandum of Understanding (MOU) impairment on file for employees hired after January 1, 2013. Government Code Section 7522.30(a) requires equal sharing of cost between public employers and public employees. The standard shall be that employees pay at least 50 percent of the contributions and employers not pay any of the required employee contribution. The member contribution rate subject to Public Employees' Pension Reform Act of 2013 (PEPRA) for the Agency was 6.25 percent; however, the Agency incorrectly paid 3.5 percent of the Employer Paid Member Contribution while the employee incorrectly paid 2.75 percent of the Tax Deferred Member Contributions. The employer paid more than 50 percent of PEPRA new member contributions rate of 6.25 percent. The Agency's MOU effective December 1, 2011 through November 30, 2014 states the Agency and employee shall each pay 3.5 percent of the normal member contributions as EPMC. EPMC was seven percent of gross wages. The employee shall pay any increase.

If an Agency determines that an existing labor policy is impaired, the Agency must communicate with a written certification to formally notify and certify to CalPERS that it will not comply with the requirements of one or more of the provisions of the Government Code Section 7522.30 until such time as the labor policy expires under its term, or is terminated, amended, reviewed or extended.

Recommendation:

The Agency should report member contributions correctly and submit a certification to CalPERS as required by PEPRA.

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

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 7522.04 § 7522.30

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4: The Agency did not enroll an eligible temporary/part-time employee into membership.

Conditions:

The Agency did not enroll an eligible temporary/part-time employee with active CalPERS membership. Employees who have active CalPERS membership are required to be immediately enrolled upon the first day of rendering services to the Agency. The Agency should have enrolled the employee at the beginning of employment on September 17, 2007.

Recommendation:

The Agency should verify the membership status of all temporary/part-time employees and immediately enroll employees with active CalPERS membership upon hire.

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

Criteria:

Government Codes: § 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 Phyllis Miller

PHYLLIS MILLER, CPA, CIA

Acting Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Diana Thomas, CIA, CIDA, Manager
Dennis Szeto, Auditor

APPENDIX A

OBJECTIVES

RIO LINDA ELVERTA COMMUNITY 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:
 - 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.

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- ✓ 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.
- ✓ 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 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.

APPENDIX B

AGENCY RESPONSE

NOTE: The Agency provided attachments to the response which have been intentionally omitted from this appendix.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

P.O. BOX 400 • 730 L STREET
RIO LINDA, CALIFORNIA 95673
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July 29, 2014

Diana Thomas
Office of Audit Services
Cal PERS
P.O. Box 942701
Sacramento, Ca. 94229-2701

RE: Employer Code: 1520, Cal PERS ID: 3301590511, Job #: P13-081

Dear Ms. Junker,

Please find below Rio Linda/Elverta Community Water Districts response to your audit review results:

1. Agencies pay schedule did not meet all requirements of CCR Section 570.5.

Please find attached a new pay schedule approved by the Board of Directors at their July 21, 2014 meeting. This pay schedule meets the requirements of CCR Section 570.5. The District will work with the Customer Account Services Division (CASD) if there are any necessary adjustments to member accounts.

2. The Agency incorrectly reported compensation.

A: Incorrect pay period reporting:

The staff's pay dates are set forth in the current Union Memorandum of Understanding (MOU). Staff is to be paid on the 15th and last day of the month. It takes several days to process payroll which is why our current payroll cycles are the 11th to the 24th and the 25th to the 10th of each month. The District will try to correct this pay period reporting issue when the next MOU is negotiated with the union. The current MOU ends on November 30, 2014.

B: Health Insurance and Social Security premiums were deducted before Cal PERS was calculated.

DIRECTORS:

Brent Dills
Paul R. Green Jr.
Matt Longo
Duane Anderson
Frank Caron

GENERAL MANAGER / SECRETARY:

Mary Henrici

This practice was discontinued before the audit was performed. The District will work with the CASD to resolve this past issue.

C: The agency incorrectly included the uniform allowance, an item of special compensation.

The District correctly included the uniform allowance as special compensation but included the incorrect amount. The District will work with the CASD to resolve this issue. This item will also be included in the new MOU.

3. The District incorrectly reported employer paid member contributions.

The District staff is union. Their current MOU stipulates that the District pay 3.5% of the Employees share of PERS retirement. The new MOU will differentiate between new PEPRAs members and classic PERS members. Please find attached a Certificate of MOU impairment requested by your office. The current MOU ends on November 30, 2014.

4. The District did not enroll an eligible temporary/part-time employee into membership.

The District has sent a letter to the temp agency requesting information on the employee in question. We are also researching our archive files for additional information. The District will work with CASD on this issue.

Our agency has gone through several Bookkeepers in the past few years. It was a concern of management that our PERS account had not been accounted for correctly. It is our hope that these issues can be dealt with quickly and the proper accounting of our retirement funds will commence from this day forward. The District staff is thankful that PERS has responded to the District's request for an audit of our account.

Thank you,

Mary Henrici

Mary Henrici
General Manager
Rio Linda/Elverta CWD
mhenrici@rlecwd.com