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December 20, 2010

Employer Code: 1481
Job Number: P09-055

Fall River Mills Community Services District
John Van den Bergh, General Manager
P.O. Box 427
Fall River Mills, CA 96028

Dear Mr. Van den Bergh:

Enclosed is our final report on the results of the public agency review completed for the Fall River Mills Community Services District. Your agency's written response indicates agreement with the issues 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 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, CPA, CIA, CIDA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Holly Fong, Chief, EMHS, CalPERS
Honorable Board Members, Fall River Mills Community Services District
Carolyn Barnett, Secretary, Fall River Mills Community Services District

Fall River Mills Community Services District



Public Agency Review



Office of Audit Services

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FALL RIVER MILLS COMMUNITY SERVICES DISTRICT

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RESULTS IN BRIEF

We reviewed the Fall River Mills Community Services District's (District) enrolled individuals, retirement contributions, member earnings and required health and retirement documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Payrates were incorrectly reported for two individuals in our sample.
- Earnings were incorrectly reported for two individuals in our sample.
- Non-reportable compensation was reported for one individual in our sample.
- Contributions were incorrectly reported as tax deferred member contributions.
- Earnings were reported under the wrong Social Security Number for one individual in our sample.
- Payroll reports and contributions were not submitted timely.
- Employee was not enrolled in CalPERS membership when hired.
- Temporary/part-time employees were not enrolled in CalPERS membership.

BACKGROUND

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 Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), 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.

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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.

The District was established to provide water and sewer services to the Fall River Mills area. The governing body consists of five elected board members. Policies and procedures 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 June 1, 1989, to provide retirement benefits for local miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as three years for all coverage groups. The District contracted with CalPERS effective July 1, 1995, to provide health benefits to all eligible employees and terminated their contract for health benefits effective January 1, 2010.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on April 26, 2010, through April 28, 2010.

The review period was limited to the examination of sampled records and processes from April 1, 2007 through March 31, 2010. To accomplish the review objectives, we performed the following:

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- ✓ Reviewed the contract and subsequent amendments the District had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the District had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the District's payroll register with the data reported to CalPERS to determine whether the District correctly reported employees' compensation.
- ✓ Reviewed the District's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the District's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the District's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the District's classification of employees to determine whether the District reported employees in the appropriate coverage groups.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Reviewed employees and their dependents to determine whether the District properly enrolled eligible dependents into CalPERS Health Benefits Program.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of four employees over four service periods. The service periods reviewed were June 2008 (06/08-0), December 2008 (12/08-0), June 2009 (06/09-0), and January 2010 (01/10-0).</p> <p>The earnings reported to CalPERS were reconciled to the District's payroll records. The District accurately reported compensation to CalPERS for the employees in our sample, with the exception of the earnings payroll reporting error addressed in Risk 3 below.</p>	<p>None.</p>
<p>2. The District may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS and reconciled the payrates to the District's public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. Our sample testing for service periods 06/08-0, 12/08-0, 06/09-0 and 01/10-0 revealed the District reported payrates below the payrates listed in the public salary schedule for two sampled employees in all four service periods tested.</p>	<p>The District should maintain public salary schedules and accurately report payrate to CalPERS.</p> <p>The District should work with CalPERS ERSD to determine the impact of this issue and what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The District may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p>Government Code, § 20636(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.”</p> <p>Government Code, § 20636(d), states, “Notwithstanding any other provision of law, payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny.”</p>	<p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>
<p>3. The District may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS for the 06/08-0, 12/08-0, 06/09-0 and 01/10-0 service periods. Our sample testing revealed that the District correctly reported the payroll information to CalPERS except for the following instances:</p> <p><u>Payroll Reporting Elements – Earnings Reported</u></p> <p>The District incorrectly reported earnings for two employees in all four sample service periods. For both employees, the District reported earnings below the allowable amount in the 06/08-0 and 12/08-0 service periods, and reported earnings above the allowable amount in the 06/09-0 and 01/10-0 service periods.</p>	<p>The District accurately report earnings in accordance with hours worked in the service period reported. The District should work with CalPERS ERSD to assess the impact of</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>Government Code, § 20630(a), states, “As used in this part, ‘compensation’ means the remuneration paid out of funds controlled by the employer in payment for the member’s services performed during normal working hours or for time during which the member is excused from work because of any of the following...(b) 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.”</p> <p><u>Payroll Reporting Elements – Overtime Reported</u></p> <p>In the 01/10-0 service period, the District reported \$150 in compensation for one employee which was compensation for attending three board meetings at \$50.00 each. This compensation is considered overtime pay and was not reportable to CalPERS.</p> <p>Government Code, § 20630(a), states, “As used in this part, ‘compensation’ means the remuneration paid out of funds controlled by the employer in payment for the member’s services performed during normal working hours or for time during which the member is excused from work.”</p> <p>Government Code, § 20635, states, in part, “For the</p>	<p>this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p> <p>The District should stop reporting overtime compensation to CalPERS.</p> <p>The District should work with CalPERS ERSD to assess the impact of this over-reporting and determine what adjustments, if any are needed.</p> <p>A confidential list identifying the individual mentioned in this section of the report has been sent to the District and CalPERS</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>purposes of this part, overtime is the aggregate service performed by an employee as a member for all employers and in all categories of employment in excess of the hours of work considered normal for employees on a full-time basis, and for which monetary compensation is paid.”</p> <p><u>Payroll Reporting Elements – Contribution Code</u></p> <p>The District reported contributions using contribution code 11, which is for tax deferred member contributions. In order to report member contributions as tax deferred, the District would have to have adopted and filed with CalPERS an IRC 414(h)(2) resolution. The District did not adopt and file a resolution with CalPERS. This reporting error impacted three employees in our test sample.</p> <p>CalPERS Procedures Manual, page 98, states, “Contribution Code is a 2-digit numeric code that identifies the type of contributions being reported. It is the key to each payroll transaction.” The CalPERS Procedures Manual defines contribution code 11 as pre-tax normal current contributions and further states, “The member pays their own contributions, but the employer has adopted the IRC 414(h)(2) resolution that is on file with CalPERS which allows the member contributions to be reported on a tax deferred basis; OR the employer pays</p>	<p>ERSD as an appendix to our draft report.</p> <p>The District should begin reporting the member contributions with the correct contribution code.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>the member contributions and the EPMC resolution is on file with CalPERS.”</p> <p><u>Payroll Reporting Elements – Social Security Number</u></p> <p>For one sampled employee, the District reported the individual under the wrong Social Security Number in the 06/08-0 and 12/08-0 service periods. The District subsequently applied an adjustment to correct the reporting for these two service periods and six other service periods that were incorrectly reported to the wrong Social Security Number.</p> <p>CalPERS Procedures Manual, page 101, states, “Social Security Number must be a positive numeric value nine digits in length. It must be present on all transactions because it is used as the major source of member identification. Verify the Social Security Number with the Social Security card or the <i>Member Action Request Form</i> (PERS-AESD-1). Social Security Numbers beginning with 8 or 9 are invalid and will not be accepted. In the event the Social Security Number was reported incorrectly on the PERS-AESD-1 and correspondingly on the payroll reports, notify the Employer Services Division. Include in the correspondence the incorrect number, the correct number, the member’s name, and a copy of the member’s</p>	<p>The District should ensure that members are reported under the correct Social Security Number.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>Social Security card. If membership was established with the correct number, but an incorrect number has been reported on the payroll reports for one or more service periods, begin using the correct number on the next payroll report. Notify the Employer Contact Center at 888 CalPERS (or 888-225-7377)."</p>	
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed the payroll information for the 06/08-0, 12/08-0, 02/09-0, 03/09-0, 06/09-0 and 01/10-0 service periods. The District mails the contribution check and the pre-list payroll listing together when submitting the information to CalPERS. To verify the payroll contribution information, we obtained the documentation from the District to identify the dates generated and identified the CalPERS receipt date through the CalPERS database.</p> <p>We found that payroll information and contributions were submitted within required timeframes except for the following:</p> <p>Payroll listings for the 02/09-0 and 03/09-0 service periods were 8 days late. Payroll contributions for the following service periods were late: 06/08-0 - 3 days late, 12/08-0 - 13 days late, 02/09-0 - 26 days late, 03/09-0 - 23 days late, 06/09-0 - 8 days late, and 01/10-0 - 7 days late.</p> <p>California Code of Regulations, § 565, states, "Member</p>	<p>The District should ensure that CalPERS receives contributions and payroll reports within the required timeframes.</p> <p>The District should work with CalPERS ERSD to assess the impact of this late reporting and determine what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS. (continued)</p>	<p>and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer."</p> <p>California Code of Regulations, § 565.1(b), states, "For employers reporting on a pre-list method, a complete and orderly payroll report for each pay period shall be filed with the System at its Sacramento office on or before 30 calendar days following the last day of the pay period to which it refers, or on or before 20 calendar days after mailing, by the System, of the pre-list therefor, whichever is the later."</p>	
<p>5. The District may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Excluded Employees</u></p> <p>The contract between CalPERS and the District excludes local safety members and elected officials from CalPERS membership. We determined the District did not employ any safety members and properly excluded elected officials.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of three temporary/part-time employees to determine whether the individuals met CalPERS membership eligibility requirements. Our</p>	<p>None.</p> <p>The District should immediately enroll all eligible employees into CalPERS membership. The</p>

FALL RIVER MILLS COMMUNITY SERVICES DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>sample testing revealed the District did not enroll and report two eligible employees.</p> <p>One employee had been a CalPERS member since August 27, 2007 through the school district where the individual worked part-time. The District should have enrolled and reported this employee for the hours worked post-membership up to the equivalent of 40 hours per week.</p> <p>Another employee worked more than 1,000 hours in fiscal year 2007/2008 but was not enrolled into CalPERS membership. The employee worked a total of 1,071.5 hours in fiscal year 2007/2008, reaching 1,000 hours in June 2008, and worked a total of 153 hours in fiscal year 2008/2009.</p> <p>In addition, we identified that the District excluded one employee who was eligible for CalPERS membership upon hire in January 2010. The District was applying a probationary period to new hires prior to CalPERS membership enrollment which was not allowed.</p> <p>Government Code, § 20305, states, in part, “(a) An employee whose appointment or employment contract does not fix a term of full-time, continuous employment in</p>	<p>District should review its current procedures for tracking part-time employees hours worked. Additionally, the District should enroll the two employees and review the hours worked by all other part-time employees and enroll those that worked a 1,000 hours or more in a fiscal year.</p> <p>The District should work with CalPERS ERSD to assess the consequences of this reporting error, and determine what adjustments, if any are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

FALL RIVER MILLS COMMUNITY SERVICES DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>excess of six months is excluded from this system unless: (1) He or she is a member at the time he or she renders that service and is not otherwise excluded pursuant to this article or by a provision of a contract:...(B) The person completes...1,000 hours within the fiscal year, in which case, membership shall be 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.”</p> <p>Government Code, § 20505, states, “Notwithstanding any other provision of law, every employee who enters or reenters service with a contracting agency on and after January 1, 1992, shall immediately become a member of this system irrespective of any probationary period, if the employee would otherwise be eligible for membership. This system shall not exclude employees, or groups of employees, solely on the basis of their status as probationary employees.”</p> <p>Government Code, § 20283, states, “(a) Any employer that fails to enroll an employee into membership when he or she becomes eligible, or within 90 days thereof, when the employer knows or can reasonably be expected to have known of that eligibility shall be required to pay all arrears costs for member contributions and administrative costs of five hundred dollars (\$500) per member as a</p>	

FALL RIVER MILLS COMMUNITY SERVICES DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The District may not enroll all eligible employees into CalPERS membership. (continued)	reimbursement to this system's current year budget. (b) An employer shall not pass on to an employee any costs assessed pursuant to subdivision (a)."	
6. The District may unlawfully employ retired annuitants.	We did not identify any retired annuitants working for the District during the scope of our review period.	None.
7. The District may not appropriately report members under the proper coverage group code.	Our sample testing revealed that the District reported members under the appropriate coverage group code.	None.
8. The District may not accurately report unused sick leave balances for retiring CalPERS members.	Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the District. We did not identify any individuals who retired from the District during the scope of our review period.	None.
9. The District may not properly enroll eligible employees and their dependents in health benefits.	The District terminated their contract for health benefits effective January 1, 2010. We limited the scope of our review to dependent eligibility. The District provided verification for dependents enrolled in health benefits for two sampled members.	None.

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the District's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

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

Date: December 2010

Staff: Michael Dutil, CIA, Senior Manager
Jacque Conway, CPA, CIA, CGFM, Manager
Alan Feblowitz
Jodi Epperson

APPENDIX

DISTRICT'S WRITTEN RESPONSE

FALL RIVER MILLS COMMUNITY SERVICES DISTRICT

P O Box 668, Fall River Mills, Ca 96028 530-336-5263

December 8, 2010

CalPERS
Attn: Jodi Epperson
Office of Audit Services
P. O. Box 942701
Sacramento, CA 94229-2701

Employer Code: 1481
Job Number: P09-055

Dear Jodi,

We herewith accept the findings of your audit, dated November 2010. I appreciate your offer of working with us to correct the outstanding issues.

Thanks,



John Van den Bergh
General Manager