

Office of Audit Services



Public Agency Review

Sacramento Municipal Utility District

CalPERS ID: 1475830462
Job Number: P13-009

October 2014



California Public Employees' Retirement System
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October 24, 2014

CalPERS ID: 1475830462
Job Number: P13-009

Josie Garcia, Manager, Human Resource Services (Interim)
Sacramento Municipal Utility District
P.O. Box 15830
Sacramento, CA 95852

Dear Ms. Garcia:

Enclosed is our final report on the results of the public agency review completed for the Sacramento Municipal Utility District (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 Phyllis Miller
PHYLLIS MILLER, Acting Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Sacramento Municipal Utility District
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Assistant Chief, CASD, CalPERS

SACRAMENTO MUNICIPAL UTILITY DISTRICT

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RESULTS IN BRIEF

The primary objective of our review was to determine whether the Sacramento Municipal Utility 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.

- Employer Paid Member Contributions (EPMC) were incorrectly paid and reported.
- Payroll information was incorrectly reported.

There were no issues identified related to employees in our sample subject to the Public Employees' Pension Reform Act of 2013 (PEPRA).

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, 1947 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. The on-site fieldwork for this review was conducted from March 18 - 21, 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 incorrectly paid and reported Employer Paid Member Contributions (EPMC).

Condition:

Although statutorily allowed, the Agency incorrectly paid and reported EPMC to CalPERS for the June 2013 pay period. Specifically, the Agency provided resolutions to CalPERS that indicated it would pay a portion of member contributions and report the portion paid by the Agency as special compensation. The percentage that the Agency agreed to pay varied between 5.5 and six percent, depending on the member's represented group. We determined that the Agency paid the entire seven percent contribution on the value of EPMC special compensation, but the amount should have been split between the employees and the Agency. As a result, the Agency over paid and reported tax deferred employer paid member contributions and under reported member paid contributions.

Recommendation:

The Agency should ensure it pays and reports EPMC as stipulated by its written labor policy.

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: § 20160, § 20636
CCR: § 569

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2: The Agency incorrectly reported payroll information.

Condition:

The Agency incorrectly reported the scheduled full-time hours per week for two employees. The Agency reported a normal work schedule of 40 hours per week. OAS determined that the employees work an average of 42 hours per week. Therefore, the correct scheduled full-time hours per week should be 42 for these employees.

Recommendation:

The Agency should ensure it reports the correct scheduled full-time hours per week that reflects the normal full-time work schedule for employees in the same labor group.

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: § 20121, § 20160, § 20221, § 20636

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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
Alan Feblowitz, CFE, Manager
Alicia Watts, Auditor

APPENDIX A

OBJECTIVES

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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 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 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.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



September 24, 2014

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

CalPERS ID: 1475830462
Job Number: P13-009

Dear Ms. Miller,

In response to your letter dated August 8, 2014, regarding the compliance review of the Sacramento Municipal Utility District's contract with the California Public Employees' Retirement System we have reviewed the draft report and have addressed the findings as noted below:

Finding 1 - Agency incorrectly paid and reported Employer Paid Member Contributions (EPMC).

Agree Disagree

SMUD agrees that we pay the entire member contribution on the EPMC portion of the Special Compensation earnings only. This has caused the Agency portion to be over-reported and member portion to be under-reported.

The total amount paid for the member contribution has not exceeded the seven percent. While the allocation of the contribution between the member and employer contribution amount is not being calculated correctly, the total aggregate amount due from the member and employee is correct.

SMUD has determined that we need to adjust our reporting to ensure that the correct amounts, for the member and employer cost sharing, are reported in accordance with our labor policy. At your request, we will work with CASD to make any necessary adjustments to member accounts when contacted.

Finding 2 - The Agency incorrectly reported scheduled work week hours.

Agree X Disagree

SMUD agrees with this finding. The standard work week of forty hours does not apply to all employees, especially those employees that work longer than 10 hours per day. Employees that work 12 hours as their standard hours per day should be reported as working an average of 42 hours per week. At your request, SMUD will work with CASD to determine the necessary action to correct this finding when contacted.

I would like to note that your auditors, Alicia Watts and Jodi Brunner, were the consummate professionals, collaborative, and supportive throughout the entire audit process. SMUD greatly appreciates the time they were with us.

If you have any questions regarding this response to the audit findings, please feel free to contact Michelle Hale at (916)732-5523 or Jimmy Gonske at (916)732-5523, or if you prefer to contact me directly I can be reached at (916)732-5380.

Sincerely,



Josie Garcia
Manager, Human Resource Services (Interim)