

Office of Audit Services



Public Agency Review

San Bernardino Municipal Water District

**Employer Code: 1318
Job Number: P11-030**

March 2013



California Public Employees' Retirement System
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March 4, 2013

Employer Code: 1318
CalPERS ID: 3370686549
Job Number: P11-030

San Bernardino Valley Municipal Water District
Douglas Headrick, General Manager
380 East Vanderbilt Way
San Bernardino, CA 92408

Dear Mr. Headrick:

Enclosed is our final report on the results of the public agency review completed for the San Bernardino Valley Municipal Water District. Your agency's written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for a section of Finding 3. Based on the information contained in your agency's response pertaining to Finding 3, 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 District 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: Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Paul C. Frydendal, Chief Financial Officer, Authority

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

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SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the San Bernardino Valley Municipal Water District's (District) enrolled individuals, member compensation, required retirement information and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Holiday pay was not reported.
- Incorrect payrate type was reported for a Board Member.
- Employer paid membership contributions (EPMC) was incorrectly reported.
- Pay Schedules were not approved by the Board, did not identify position titles, and did not include the payrate for the position of Board Member.
- Eligible part-time employee was not enrolled in CalPERS membership.
- Unused sick leave was over-stated.

DISTRICT BACKGROUND

The San Bernardino Valley Municipal Water District functions to import and deliver water into its service area and to manage groundwater storage within its boundaries. The District is governed by a five member Board of Directors. The District contracted with CalPERS effective September 1, 1982, to provide retirement benefits for local miscellaneous employees. The District does not contract with CalPERS for health benefits.

All contracting public agencies, including the District, are responsible for the following:

- Determining CalPERS membership eligibility for its employees.
- Enrolling employees into CalPERS upon meeting membership eligibility criteria.
- Enrolling employees in the appropriate membership category.
- Establishing the payrates for its employees.
- Approving and adopting all compensation through its governing body in accordance with requirements of applicable public meeting laws.
- Publishing all employees' payrates in a publicly available pay schedule.
- Identifying and reporting compensation during the period it was earned.
- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

- Notifying CalPERS when employees meet Internal Revenue Code annual compensation limits.
- Ensuring the employment of a retired annuitant is lawful and reinstating retired annuitants that work more than 960 hours in a fiscal year.

SCOPE

As part of the Board approved plan for fiscal year 2011/2012, the OAS reviewed the District's payroll reporting and member enrollment processes as these processes relate to the District's retirement contract with CalPERS. The review period was limited to the examination of sampled records and processes from April 1, 2009, through March 31, 2012. The on-site fieldwork for this review was conducted on May 14, 2012, through May 17, 2012. The review objectives and a summary of the procedures performed are listed in Appendix B.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: The District did not report holiday pay to CalPERS.

Recommendations:

The District should ensure holiday pay, a statutory item of special compensation, is reported and contained in a publicly available written labor policy or agreement.

OAS recommends that CASD work with the District to assess the impact of this compensation reporting issue and determine what adjustments are needed. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Conditions:

The District's water pumping station employees were required to work holidays because their positions required staffing without regard to the holiday. The District's Ordinance No. 58 specified that employees who are required to work on an approved holiday due to the nature of the position, shall be paid overtime or receive the equivalent time off. Ordinance No. 58 also established that overtime is to be paid at the rate equivalent to one and one half the hourly rate computed from the monthly salary. We reviewed time schedules, overtime sheets, and payroll registers and found that additional compensation was earned for hours worked on a holiday. We were unable to determine exactly how many holiday hours were worked as the overtime sheet did not segregate regular overtime hours from holiday overtime hours. Though OAS was unable to calculate the amount of holiday pay to be reported, we determined the additional compensation paid for working the regular scheduled hours was not reported to CalPERS.

Criteria:

Government Code: § 20049, § 20636 (c)(6)
California Code of Regulations: § 571 (a)(5), § 571 (b)

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

Finding 2: The District reported an incorrect payrate type.

Recommendation:

The District should ensure that the proper payrate type is reported to CalPERS.

OAS recommends that CASD work with the District to assess the impact of this payrate type reporting issue and determine what adjustments are needed. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Condition:

The District correctly reported payrate type during the sampled periods, except in one instance. The District properly reported the payrate type for the sampled full-time employees as monthly and reported a monthly payrate. The sampled part-time employee's payrate was correctly reported as hourly and reported an hourly payrate. However, the District incorrectly reported the payrate type of the sampled board member as daily when the payrate should have been reported as monthly. Board members received compensation in the amount of \$367.50 per day for each day of attendance at meetings or day of service, not to exceed 10 days per month. The District reported a daily payrate of \$367.50 and earnings based on the number of days worked. However, Board members are eligible to receive one full service credit per year of tenure in office per Government Code Section 20899. Therefore, the District should report a monthly payrate that fluctuates with earnings to result in a full unit of service credit per month.

Criteria:

Government Code § 20899

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

Finding 3: The District incorrectly reported EPMC.

Recommendation:

The District should report all special compensation, including EPMC, separately from base pay rate and regular earnings.

OAS recommends that CASD work with the District to assess the impact of this payroll reporting issue and determine what adjustments are needed. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Condition:

EPMC was incorrectly reported in base payrate and regular earning

The District incorrectly reported the value of EPMC on base payrate in the employees' reported payrate and regular earnings from April 1, 2009, to July 1, 2011. All special compensation is required to be reported as a separate line item, as it is earned.

The District incorrectly reported the value of EPMC

In addition, the District had a resolution on file to pay and report the value of EPMC. However, this provision was not authorized in a written labor policy or agreement; therefore, the District incorrectly reported the value of EPMC for these employees. In order for the value of EPMC to be reported as special compensation, it must be contained in a written labor policy or agreement as outlined in Government Code Section 20636 (c)(4) and California Code of Regulations Section 571.

Criteria:

Government Code § 20049, § 20636 (a), § 20636 (c)(4), § 20691
California Code of Regulations § 569 (b)(1), § 571 (a)(1)

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

Finding 4: The District did not have a publicly available pay schedule.

Recommendation:

Only compensation earnable, as defined under Government Code Section 20636 and corresponding regulations, can be reported to CalPERS and considered in calculating retirement benefits. The District must ensure that reported payrates are set forth in a publicly available pay schedule and meet the definition of payrate under the PERL. Additionally, the District must ensure that all employees' salaries are properly reviewed, authorized and approved by the Board of Directors in accordance with public meeting laws.

The District should work with CASD to determine the impact of this incorrect reporting and determine what adjustments are needed. To the extent that amounts of pay were improperly included in the retirement allowance afforded individuals who have already retired, a correction must be made pursuant to Government Code Section 20160.

Condition:

The reported payrates were traced to the District's pay schedule and personnel memos for the sampled period March 16, 2012, to March 31, 2012. OAS found the sampled employees' payrates were aligned with the pay schedules. However, the District's Board did not approve and adopt the pay schedules in accordance with requirements of applicable public meetings laws. In addition, the pay schedules did not identify position titles for every employee position. Also, we were unable to trace the sampled Board member's payrate to a pay schedule as the District's pay schedule did not include the Board member's position title or payrate.

Per California Code of Regulations Section 570.5 (a)(3), a pay schedule must 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, and show the payrate for each identified position, which maybe stated as a single amount or as multiple amount within a range.

Criteria:

Government Code § 20636(b)(1)
California Code of Regulations § 570.5

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Finding 5: The District did not enroll an eligible temporary employee into CalPERS membership.

Recommendation:

The District should enroll temporary employees into CalPERS membership when membership requirements are met. The District should also implement procedures to review and monitor the number of hours worked in a fiscal year by all temporary and part-time employees hired through temporary employment agencies.

OAS recommends that CASD work with the District to assess the impact of this enrollment issue and determine what adjustments, if any, are needed. CASD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160

Condition:

OAS reviewed the hours worked in fiscal years 2009/2010 and 2010/2011 for two sampled employees and found that one individual was compensated for 1,919.50 hours in fiscal year 2009/2010. Specifically, the employee was hired through Venturi Staffing Partners, and completed 1,000 hours of work in the pay period ending January 10, 2010. The District should have enrolled the employee no later than the first pay period in February 2010.

Criteria:

Government Code § 20044, § 20305 (a)(3)(B)

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Finding 6: The District overstated an unused sick leave balance.

Recommendation:

The District should ensure the correct amount of unused sick leave is certified to CalPERS so that a retiree receives the appropriate amount of additional service credit upon retirement. An Amended Employer Certification form (BSD-200-A) should be submitted to CalPERS BNSD in order to adjust incorrect unused sick leave balance certifications.

OAS recommends that BNSD work with the District to assess the impact of and correct this unused sick leave reporting issue. BNSD should make the necessary adjustments to members' accounts pursuant to Government Code Section 20160.

Condition:

OAS reviewed the only member who retired from the District during the review period to determine whether the District accurately reported the member's unused sick leave balance. Unused sick leave balance for the sampled retiree was not properly reported to CalPERS. The member had 1,054 unused sick leave hours at retirement, which converted to 131.75 days of unused sick leave; however, the District incorrectly certified 160 days, over-reporting the unused sick leave balance by 28.25 days.

Criteria:

Government Code § 20965

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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 B. 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

Date: March 2013
Staff: Michael Dutil, CIA, CRMA, Senior Manager
Diana Thomas, CIA, CIDA, Manager
Terry Heffelfinger
Karen Harlan, CIA
Noah Schreier

APPENDIX A

BACKGROUND

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

BACKGROUND

California Public Employees' Retirement System

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 Customer Account Services Division (CASD) manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD 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. CalPERS Benefit Services Division (BNSD) sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits.

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 employer's 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.

APPENDIX B

OBJECTIVES

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the District's retirement contract with CalPERS were followed.

This review covers the period of April 1, 2009, through March 31, 2012.

SUMMARY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures, reviewed documents, and performed the following procedures.

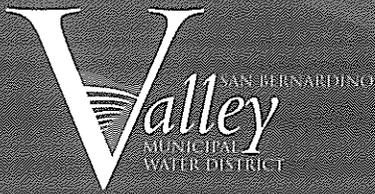
- ✓ Reviewed:
 - Provisions of the Contract and contract amendments between the District and CalPERS
 - Correspondence files maintained at CalPERS
 - District Board minutes and District Board resolutions
 - District written labor policies and agreements
 - District salary, wage and benefit agreements including applicable resolutions
 - District personnel records and employee hours worked records
 - District payroll information including Summary Reports and CalPERS listings
 - Other documents used to specify payrate, special compensation, and benefits for all employees
 - District ordinances as necessary
 - Various other documents as necessary
- ✓ Reviewed District payroll records and compared the records to data reported to CalPERS to determine whether the District correctly reported compensation.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to District 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 District's governing body in accordance with requirements of applicable public meeting laws.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

- ✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the District's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the District'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 District's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the District's affiliated entities to determine if the District shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the District or by the affiliated entity.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

APPENDIX C

District's Response



380 East Vanderbilt Way
San Bernardino, CA 92408
phone: 909.387.9200
fax: 909.387.9247
www.sbvmd.com

February 13, 2013

Ms. Margaret Junker, Chief
CalPERS Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Re: CalPERS Draft Report on Compliance Review dated January 22, 2013
CalPERS ID: 3370686549
Job Number: P11-030

Dear Ms. Junker,

Per your request the District has reviewed the draft report mentioned above and is providing written response to the report findings.

Finding 1: The District did not report holiday pay to CalPERS

District Response The District is in agreement with this finding. District overtime sheets will be revised to differentiate between regular overtime and holiday overtime. District will report holiday overtime pay to CalPERS

Finding 2: Incorrect payrate type reported

District Response The District is in agreement with this finding. The board member per diem rate is set on per day basis. The total reportable earnings were correctly reported to CalPERS as well as the daily per diem rate for the board member. The District will comply with the request of CalPERS to report the actual monthly amount paid opposed to the daily per diem set by board policy.

Finding 3: EPMC was incorrectly reported

District Response There are two conditions to this finding and the District would like to respond individually.

- EPMC was incorrectly reported in base payrate and regular earning. The District is in agreement with this finding. Prior to July 2011, regular earnings and EPMC were not reported separately however no payroll was over reported. Starting in July 2011 the District has reported regular earnings and EPMC separately.
- The District incorrectly reported the value of EPMC. The District does not agree with this condition. The District has a Board approved and authorized resolution on file to pay and report the value of EPMC as well as Board minutes documenting the meeting. The resolution was submitted and accepted by CalPERS authorizing the reporting of EPMC as compensation.

Board of Directors and Officers

ED KILLGORE
Division 1

GIL NAVARRO
Division 2

C. PATRICK MILLIGAN
Division 3

MARK BULOT
Division 4

STEVE COPELAN
Division 5

DOUGLAS D. HEADRICK
General Manager

February 13, 2013

Finding 4: The District did have a publicly available pay schedule.
(as written in the draft letter)

District Response The District is in agreement with this finding. The Board annually reviews the salary schedule, organization chart and current district employee positions including salary range and steps for each employee during the budget process. The salary schedule and employee positions, range and step were on two separate reports which did not meet CalPERS compliance. In July 2012, the salary schedule includes employee position by range and was approved by the Board through the budget process. The district will include board member payrates on the salary schedule.

Finding 5: Eligible part-time employee was not enrolled into membership.
(as written in the draft letter)

District Response The District is in agreement with this finding. The District no longer has employees from temporary employment agencies. The District will track employee's hours to ensure proper enrollment in membership.

Finding 6: Unused sick leave was over-stated

District Response The District is in agreement with this finding. The District will file an amended employer certification form (BSD-200-A) correcting the overstatement.

The District would like to thank both Karen Harlan and Noah Schreier for their knowledge and professionalism they showed during the field work and report writing. We look forward to working with the Customer Account Services Division and Benefits Services Division of CalPERS to make the necessary adjustments per the findings addressed in this draft report. Thank you for this opportunity to comment on these findings.

Sincerely,



Douglas D. Headrick
General Manager