

Office of Audit Services



Public Agency Review

San Juan Water District

**Employer Code: 1114
CalPERS ID: 5640819152
Job Number: P12-012**

July 2013



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942715
Sacramento, CA 94229-2715
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

July 22, 2013

Employer Code: 1114
CalPERS ID: 5640819152
Job Number: P12-012

San Juan Water District
Mary Morris, Finance and Administrative Services Manager
9935 Auburn Folsom Road
Granite Bay, CA 95746

Dear Ms. Morris:

Enclosed is our final report on the results of the public agency review completed for the San Juan Water District. 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 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

SAN JUAN WATER DISTRICT

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
District Background.....	1
Scope.....	2
Office of Audit Services Review Results	3
Finding 1: Holiday pay was not reported	3
Finding 2: Monetary value of uniforms provided to employees was not contained in a written labor agreement.....	4
Finding 3: The monetary value of uniforms was not reported as earned....	5
Finding 4: Member contributions were incorrectly reported.....	6
Finding 5: Payrate was not listed in a public pay schedule.	7
Finding 6: Scheduled full-time hours per week were incorrectly reported..	8
Finding 7: Unused sick leave was erroneously reported	9
Conclusion	10
CalPERS Background.....	Appendix A
Objectives	Appendix B
District's Written Response	Appendix C

SAN JUAN WATER DISTRICT

RESULTS IN BRIEF

The California Public Employees' Retirement System (CalPERS) Office of Audit Services (OAS) reviewed the San Juan Water District's (District) enrolled individuals, member compensation, 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.
- The monetary value of uniforms provided to employees was not contained in a written labor policy or agreement.
- The monetary value of uniforms was not reported as earned.
- Member contributions were incorrectly reported.
- Payrate was not listed in a public pay schedule.
- Scheduled full-time hours per week were incorrectly reported.
- Unused sick leave was erroneously reported.

A confidential list identifying the individuals mentioned in this report is attached as an appendix to this draft report.

DISTRICT BACKGROUND

The District was incorporated March 4, 1954 as a community service district under community service district law of the State of California. The District is governed by a five member Board of Directors. Memoranda of Understanding (MOU), employment agreements and the San Juan Water District Employee Manual outline the 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 December 1, 1976 to provide retirement benefits for local miscellaneous employees.

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.

SAN JUAN WATER DISTRICT

- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.
- 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 2012/2013, 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 October 1, 2009 through September 30, 2012. The on-site fieldwork for this review was conducted from November 7, 2012 through November 13, 2012. The review objectives and a summary of the procedures performed are listed in Appendix B.

SAN JUAN WATER DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: Holiday pay was not reported.

Recommendation:

The District should report holiday pay for employees required to work on approved holidays as part of their position.

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

Condition:

The District did not report holiday pay for its Water Treatment Operators that were required to work on holidays because they work in positions that require scheduled staffing without regard to holidays. OAS reviewed the time sheet, payroll register and payroll listing for service period ending June 1, 2012, for one sampled Water Treatment Operator who worked on Memorial Day. OAS noted the employee received holiday pay in the amount of \$997.92 in addition to regular earnings. This employee also received \$1,330.56 in holiday pay cash out in pay period ending June 15, 2012. However, the District did not report the holiday pay or cashout to CalPERS. The additional holiday compensation received by employees who are normally required to work on approved holidays as part of the position requirement is reportable compensation to CalPERS. In addition, the District must report cash out of holiday credit in the period earned for those employees with written labor agreements that provide it and allow for annual cash out of holiday credit.

Criteria:

Government Code: § 20630(a), § 20636(a), § 20636(c)(1), § 20636(c)(5), § 20636(c)(6)

California Code of Regulations: § 571(a)(5)

SAN JUAN WATER DISTRICT

Finding 2: The monetary value of uniforms provided to employees was not contained in a written labor policy or agreement.

Recommendation:

The District should have a written labor policy or agreement stating the monetary value of uniforms provided to employees in accordance with the requirements of California Code of Regulations Section 571.

The District should work with CASD to outline the conditions for payment of the value of uniforms in a written labor agreement.

Condition:

The District provided uniforms to all designated non-exempt Field, Treatment, Engineering and Conservation employees that were required to wear uniforms. However, the amount and method for calculating the monetary value of uniforms was not contained in a written labor policy or agreement. Although the District had a manual that stated it would provide uniforms, OAS found that the manual did not state the value of the uniforms. California Code of Regulations Section 571, subdivision (b)(1)(B), explains that the labor agreement must be approved and adopted by the employer's governing body in accordance with requirements of applicable public meetings laws and must indicate the conditions for payment of the item of special compensation, including, but not limited to, eligibility for, and amount of, the special compensation.

Criteria:

Government Code: § 20636(c)(6),

California Code of Regulations: § 571(b)(1)(B)

SAN JUAN WATER DISTRICT

Finding 3: The monetary value of uniforms was not reported as earned.

Recommendation:

The District should report the monetary value of uniforms as earned to CalPERS.

The District should work with CASD to assess the impact of this reporting issue and determine what adjustments, if any, are needed.

Condition:

The District did not report the monetary value of uniforms in the period in which it was earned. OAS reviewed a sample of three employees who received uniforms in fiscal year 2011/2012. The District's methodology for reporting the monetary value of uniforms was to calculate the cost of uniforms provided for a one year period for designated employees and report the monetary value as a lump sum amount. The District reported lump sum amounts for the three sampled employees in the pay period ending August 10, 2012; however, the District did not report the value for the period earned. Instead of reporting the value of uniforms for the actual period earned, July 1, 2011 through June 30, 2012, the District reported the value for the period July 28 through August 10, 2012. When reporting compensation to CalPERS, the District should identify the pay period(s) in which the compensation was earned regardless of when reported or paid.

Criteria:

Government Code: § 20160(a), § 20636(a) § 20636(c)(3)

SAN JUAN WATER DISTRICT

Finding 4: Member contributions were incorrectly reported.

Recommendations:

The District should ensure member contributions are accurately reported.

The District should work with CASD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.

Conditions:

The District incorrectly reported member contributions of three sampled employees for July 28 through August 10, 2012. Specifically, the District had a resolution effective June 18, 2011, stating the District would pay zero percent of the normal member contributions as Employer Paid Member Contributions (EPMC). In addition, the District had an IRS 414(h)(2) resolution, adopted December 9, 2008, to report member contributions as tax deferred. The District correctly reported contributions on regular earnings as tax deferred member paid contributions. However, when reporting special compensation (value of uniform) for the three sampled employees, the District incorrectly reported contributions as employer paid member contributions. The District should have reported the member contributions as tax-deferred member paid contributions.

Criteria:

Government Code: §569(a)(1)

CalPERS Public Agency and Schools Reference Guide, Page 91

SAN JUAN WATER DISTRICT

Findings 5: Payrate was not listed in a public pay schedule.

Recommendation:

The District should ensure that all positions and payrates are listed on a publicly available pay schedule and that payrates are paid and reported pursuant to the pay schedule.

The District should work with CASD to implement the recommendation noted above and make all necessary adjustments, if any, to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

The District did not have pay schedules that met the requirements of a pay schedule as defined in the California Code of Regulations Section 570.5. OAS reviewed the reported payrate for a sampled management employee from October 1, 2009 through September 30, 2012, to determine whether the payrate was reported in accordance with publicly available pay schedules. OAS reviewed all available salary information and determined the payrate for the management position was not listed in a publicly available pay schedule. 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 all reported payrates are set forth in a publicly available pay schedule.

Criteria:

Government Code: § 20636(b)(1), § 20636(d)

California Code of Regulations: § 570.5

SAN JUAN WATER DISTRICT

Finding 6: Scheduled full-time hours per week were incorrectly reported.

Recommendation:

The District should accurately report the number of hours an employee is scheduled to work per week.

The District should work with CASD to make the appropriate adjustments, if any, to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

The normal number of hours worked by employees in the Water Treatment Operator position was 37.5 hours per week. OAS reviewed the reported scheduled full-time hours per week for one sampled Water Treatment Operator during pay period ending August 10, 2012, and determined the District incorrectly reported 40 hours as the scheduled full-time hours per week. The District should have reported the scheduled full-time hours per week as 37.5.

Criteria:

Government Code: § 20160, § 20636.1(b)(1)

CalPERS Public Agency and Schools Reference Guide: Page 90

SAN JUAN WATER DISTRICT

Finding 7: Unused sick leave was erroneously reported.

Recommendation:

The District should ensure the correct amount of unused sick leave is reported for additional service credit when an employee retires.

The District should work with CalPERS Benefits Services Division (BNSD) to assess the impact of the erroneously reported sick leave and make the necessary adjustments to retired member accounts pursuant to Government Code Section 20160.

Condition:

OAS traced unused sick leave balances for three sampled employees and found the District incorrectly reported the unused sick leave balance for one employee. The employee cashed out all unused sick leave at retirement, which led to a zero balance of unused sick leave. However, the District erroneously reported 55.31 days of unused sick leave to CalPERS.

Retiring members are eligible for additional service credit for unused sick leave accrued by the member during the normal course of employment. The total number of unused sick leave hours at retirement is converted to days to determine additional service credit.

Criteria:

Government Code: § 20965

SAN JUAN WATER DISTRICT

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 District'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 District 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: July 2013

Staff: Cheryl Dietz, CPA, Assistant Division Chief

Michael Dutil, CIA, CRMA, Manager

Alan Feblowitz, CFE, Manager

Terry Heffelfinger

Emma Shaw

Aileen Wong

SAN JUAN WATER DISTRICT

APPENDIX A

BACKGROUND

SAN JUAN WATER DISTRICT

BACKGROUND

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.

CASD manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides services for eligible members who apply for service or disability retirement. 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. 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.

SAN JUAN WATER DISTRICT

APPENDIX B

OBJECTIVES

SAN JUAN 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 October 1, 2009 through September 30, 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
 - Board minutes and District 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
 - 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.
- ✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.

SAN JUAN WATER DISTRICT

- ✓ 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.

SAN JUAN WATER DISTRICT

APPENDIX C

DISTRICT'S WRITTEN RESPONSE



June 26, 2013

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

Directors
Edward J. "Ted" Costa
Kenneth H. Miller
Dave Peterson
Pamela Tobin
Bob Walters
General Manager
Shauna Lorange

Re: Employer Code 1114, Job Number P12-012, Draft Compliance Review Report

Dear Ms. Junker:

We received the above-referenced report and reviewed the findings as well as recommendations. The District's response to each recommendation is listed below:

Finding 1: Holiday pay was not reported

The District agrees with the recommendation and has already corrected this following the closing conference at completion of the review, from that time forward. The District's Accounting Technician will work with CASD regarding any adjustments needed for prior reporting.

Finding 2: The monetary value of uniforms provided to employees was not contained in a written labor policy or agreement.

The District agrees with the recommendation and is working with CASD regarding any adjustments that may be needed for prior reporting.

Finding 3: The monetary value of uniforms was not reported as earned.

The District agrees with the recommendation and will report the monetary value of uniforms for the period of July 1, 2012 through July 31, 2013 in the last reporting period of July 2013. In the future, the District will report this for the period of July through June each year in June.

Finding 4: Member contributions were incorrectly reported.

The District agrees with the recommendation and has already corrected this following the closing conference at completion of the review, from that time forward. The District's Accounting Technician will work with CASD regarding any adjustments that may be needed for prior reporting.

Finding 5: Payrate was not listed in a public pay schedule.

The District had not listed the salary of the General Manager on the publicly available pay schedule other than in the annual budget document due to the fact this is a contract

position. The District has now listed the General Manager's current salary as the current minimum and maximum.

Finding 6: Scheduled full-time hours per week were incorrectly reported.

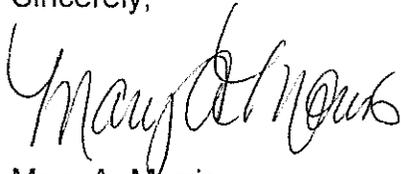
As discussed with the CalPERS field auditors, there was no dollar impact related to this discrepancy in normal number of hours reported. The District has corrected this, so it is unclear why an item with no impact would be required to be listed as a finding.

Finding 7: Unused sick leave was erroneously reported.

The District agrees with the recommendation and has already corrected this following the closing conference at completion of the review, from that time forward. The District's Accounting Technician will work with CASD regarding any adjustments that may be needed for prior reporting.

We appreciate the opportunity to respond to the findings of the CalPERS Compliance Review Report. Please let me know if you have any questions or need any additional information.

Sincerely,



Mary A. Morris
Finance & Administrative Services Manager