

# **Office of Audit Services**



## **Public Agency Review**

### **Santa Fe Irrigation District**

**Employer Code: 0092**  
**CalPERS ID: 3288352742**  
**Job Number: P13-027**

**May 2014**



California Public Employees' Retirement System  
Office of Audit Services  
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May 30, 2014

Employer Code: 0092  
CalPERS ID: 3288352742  
Job Number: P13-027

Santa Fe Irrigation District  
Jeanne Deaver, Administrative Service Manager  
P.O. Box 409  
Rancho Santa Fe, CA 92067

Dear Ms. Deaver:

Enclosed is our final report on the results of the public agency review completed for the Santa Fe Irrigation District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 3. We appreciate the additional information regarding Finding 3 that you provided in your response. After consideration of this information, our recommendation remains as stated in the report; however, we have added clarifying language to the condition and recommendation for Finding 3.

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 Margaret Junker  
MARGARET JUNKER, Chief  
Office of Audit Services

Enclosure

cc: Board of Directors, Santa Fe Irrigation District  
Risk and Audit Committee Members, CalPERS  
Gina M. Ratto, Interim General Counsel, CalPERS  
Karen DeFrank, Chief, CASD, CalPERS  
Anthony Suine, Chief, BNSD, CalPERS

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## RESULTS IN BRIEF

The primary objective of our review was to determine whether Santa Fe Irrigation 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.

- The Agency's pay schedule did not meet the requirements of the CCR.
- The Agency did not correctly report special compensation as required by the CCR.
- The Agency did not report unused sick leave 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 July 1, 1945 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 its contract, and the Public Employees Retirement Law (PERL). The Agency 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 2013/2014, the OAS reviewed the Agency's payroll reporting and member enrollment processes as these processes relate 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 October 23, 2013 through October 24, 2013. 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 requirements of the CCR.

### ***Condition:***

The Agency's 2013 pay schedule was not approved and adopted by the Agency's governing body in accordance with requirements of applicable public meeting laws and did not identify position titles for every employee position. 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. Per 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.

### ***Recommendation:***

The Agency should ensure its pay schedule meets all the CCR requirements.

The Agency should work with CalPERS Customer Account Services Division (CASD) to make any necessary adjustments 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 did not correctly report special compensation as required.

**Condition:**

- A. The Agency incorrectly reported Longevity Pay with payrate and earnings. Because Longevity Pay meets the requirements of special compensation in accordance with the CCR section 571, it should be reported to CalPERS separate from payrate and earnings. The Agency stated its payroll system is currently being revised to separate Longevity Pay from payrate and earnings.
- B. The Agency incorrectly reported special compensation of Holiday Pay for an employee. Specifically, the Agency incorrectly reported additional compensation of eight hours at the employee's regular rate of pay. The Agency's written labor agreement provides for additional compensation for employees required to work on a holiday at a premium rate of two times the regular rate of pay. As a result, reported special compensation of Holiday Pay was incorrectly reported for the employee.
- C. As a result of combining compensation items, the Agency incorrectly calculated and reported Shift Differential pay for an employee. The Agency did not comply with the Agency's written labor agreement to report Shift Differential pay at five percent for hours worked. Therefore, the Agency over-reported Shift Differential pay for this employee.
- D. The Agency did not report all items of special compensation as separate entries. For example, the Agency combined Holiday Pay and Shift Differential as one entry of special compensation. To prevent inaccurate reporting, the Agency must identify each item of special compensation by reporting them as separate entries.
- E. The Agency's written labor agreement did not address the monetary value of uniforms and its conditions for payment. Although, the Agency utilizes a cost allocation worksheet to determine the cost of uniforms for those employees required to wear uniforms, this worksheet was not included within a written labor policy or agreement. Therefore, the cost allocation worksheet did not meet the requirements of CCR section 571(b).

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Reportable special compensation is exclusively listed and defined in the CCR section 571. Reportable special compensation is required to be contained in a written labor policy or agreement, available to all members in a group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, historically consistent with prior payments for the job classification, not paid exclusively in the final compensation period, not final settlement pay, and not creating an unfunded liability over and above CalPERS actuarial assumptions.

***Recommendation:***

The Agency should report items of special compensation as separate entries and separate from base payrate and regular earnings.

The Agency should correctly report special compensation such as Shift Differential and Holiday Pay.

The Agency should ensure written labor agreements indicate the monetary value of uniforms and its conditions for payment.

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, § 20636 (b)(1), § 20636 (c)(2), § 20636 (c)(6)  
CCR: § 571

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3: The Agency did not report unused sick leave.

***Condition:***

The Agency did not report the balance of unused sick leave for a retiree. Specifically, the Agency allowed the employee to cash out up to fifty percent of the retiring member's unused sick leave balance at retirement. However, the remaining unused sick leave balance of 265 hours or 33 days was not reported to CalPERS. Retiring members are eligible for additional service credit for unused sick leave accrued by the member during the normal course of employment.

OAS determined that the Agency's interpretation of the unused sick leave policy changed over time. Specifically, prior to October 2011, the Agency did not certify the remaining balance of unused sick leave to CalPERS. For employees electing to cash-out, two hours of accrued unused sick leave was valued at one hour of pay leaving no remaining balance; however, effective October 2011 the Agency revised its interpretation of the policy and determined that each hour of accrued unused sick leave would be valued at one hour of pay, such that an employee's election to cash out 50 percent of unused sick leave would leave 50 percent of the accrued leave remaining in an employee's account available to be converted to additional service credit.

***Recommendation:***

The Agency should ensure the correct balance for unused sick leave is certified and reported for retiring members.

The Agency should ensure the language in its policy for cashing out unused sick leave balances is applied consistently to all applicable employees. In its response to this review, the Agency stated that it is in the process of revising various sections of its employment policies to clarify or update language and that this is one of the areas needing to be more clearly defined.

The Agency should work with CASD to assess the impact of the lack of reporting and determine whether any adjustments are necessary pursuant to Government Code section 20160.

***Criteria:***

Government Codes: § 20160, § 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 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 Margaret Junker  
MARGARET JUNKER, CPA, CIA, CIDA  
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Diana Thomas, CIA, CIDA, Manager  
Alan Feblowitz, CFE, Manager  
Edward Fama, Auditor

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# 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 all 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 listing 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 RESPONSE**

## Santa Fe Irrigation District



April 10, 2014

California Public Employees' Retirement System  
Office of Audit Services  
Margaret Junker, Chief  
P.O. Box 942701  
Sacramento, CA 94229-2701

RE: Job Number P13-027, Employer Code 0092, CalPERS ID 3288352742

Dear Ms. Junker:

We've received and reviewed the draft report on our compliance review regarding our contract with CalPERS. Thank you for providing us the opportunity to respond to the findings. Below are our responses to the three results addressed in the report.

**Result #1 – Pay Schedule:**

We accept the recommendations and have already implemented them to correct this finding.

**Result #2 – Special Compensation:**

We accept the recommendations and have made changes in our software system to correct this finding.

**Result #3 – Unused Sick Leave:**

We strongly disagree with finding number 3 and with the recommendation thereto. The finding reflects an incorrect application of Section 20965 and incorrectly suggests that unused sick leave remained after the cash-out which needed to be reported to CalPERS. As we will detail below, the determination that unused sick leave remained after the cash-out is inconsistent with both the District's sick leave policy and its historical practice.

In relevant part, Section 20965 provides that "a local . . . member . . . shall be credited at his or her retirement with .004 year of service credit for each **unused** day of sick leave **certified** to the board by his or her employer." (Emphasis added). Further, "[t]he certification . . . shall not include any additional days of sick leave reported for the purpose of increasing the member's retirement benefit." Thus, in order for sick leave to be converted into additional service credit it must be both unused and certified as such by the employer. Moreover, any unused sick leave certified by the employer cannot include any sick leave which is reported solely for the purpose of increasing the member's retirement benefit.

To this effect, the District's sick leave policy ("Policy") states, in relevant part, that ". . . upon termination due to retirement . . . payment will be made for fifty percent (50%) of accumulated unused sick leave . . . Upon retirement, unused accumulated sick leave can **alternately** be converted to additional CalPERS service credit . . . ."

The use of the word "alternately" in the Policy is significant because it strongly suggests that an employee can either cash-out accrued sick leave subject to the terms laid out in the Policy or convert such sick leave into additional CalPERS service credit. Consistent with the preceding, the District's application of the cash-out provisions of the Policy was to deem all accrued sick leave as used when the retiring employee elected to cash-out such leave. Thus, there could not be any unused sick leave to certify to CalPERS. The statute specifically calls for the employer to "certify" to CalPERS the amount of unused sick leave days remaining at an employee's retirement. This clearly contemplates that the employer must make a determination of whether there is any unused sick leave to certify to CalPERS. In this respect, the District made a determination that no unused sick leave remained by properly interpreting and applying the Policy as resulting in the use of 2 hours of accrued but unused sick leave to receive 1 hour of pay. Thus, prior to October 2011, the District's practice of not certifying unused sick leave to CalPERS for those employees' electing to cash-out unused sick leave was in full compliance with Section 20965 because the cash-out election resulted in all the accrued leave in the employees' account being spent. In light of the preceding, CalPERS' proposed determination that 50% of the unused sick leave subject to a cash-out election remained unused after such election with respect to any employee retiring prior to October 2011 and was, therefore, reportable to CalPERS is inconsistent with the provision in Section 20965 which precludes an employer from reporting any sick leave "for the purpose of increasing the member's retirement benefit." Since such sick leave was already used, it was not available for conversion into additional CalPERS service credit and, as such, reporting it to CalPERS would be solely for the purpose of increasing such employees' retirement benefit.

The foregoing interpretation shifted as a result of an inquiry in October 2011. At that time, a question was raised by an employee regarding the conversion of sick leave to CalPERS service credit. According to the terms of the MOU applicable to the employee which were consistent with the Policy, the employee was allowed to elect to cash-out 50% of his accrued sick leave hours. Electing the cash-out, the employee requested that the District consider allowing the conversion of the other 50% of accrued sick leave hours to additional CalPERS service credit.

In response to the employee's request, the District reviewed the language in the Policy and concluded that in light of the conditions in effect at such time and the District's desire to reward employees for their service to the District, it would be appropriate for the District to reconsider its interpretation and application of the Policy, specifically the use of 2 accrued sick leave hours for 1 hour of pay. Such a reconsideration was proper and within the District's authority, and not limited or restricted by any provision of PERL. After considering a number of factors, the District concluded that effective October 2011, each hour of accrued sick leave would be valued at one hour of pay such that an employee's election to cash-out 50% of accrued sick leave would leave 50% of the accrued leave remaining in his or her account upon retirement. As such, the District would certify, consistent with Section 20965, the remaining 50% to CalPERS as unused

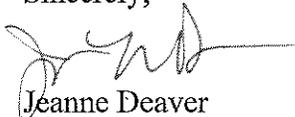
sick leave available to be converted to additional CalPERS service credit. This interpretation has been consistently and uniformly applied since that time.

We are cognizant that our Policy needs to be amended to clarify that a cash-out election leaves half of the accrued leave policy in the employee's account eligible for certification to CalPERS for conversion to additional service credit. To this effect, the District is in the process of revising various sections of its employment policies to either clarify or update language. This is one of the areas we have identified as needing to be more clearly defined. However, changes to the District's employment policies are subject to the meet and confer process with the employees' association. Therefore, we are slowly moving through the process to finalize clarification of this language.

As to the finding, we strongly reiterate that any employees that retired prior to October 2011 when the District reconsidered the interpretation and application of the Policy and that elected to cash-out their accrued leave did not have any remaining unused sick leave in their account after the election to cash-out and, therefore, the District did not and could not have certified to CalPERS any unused leave. Thus, these retirees are not entitled to the conversion of any sick leave. In light of the preceding, CalPERS has absolutely no basis to grant such a benefit in the absence of a certification by the District that there was unused sick leave and, if it did so, would be taking a step which is inconsistent with Section 20965. As such, we request that CalPERS revise finding 3 to reflecting a "no finding" result.

If you have any questions, please contact me at (858) 756-5970 or [jdeaver@sfidwater.org](mailto:jdeaver@sfidwater.org).

Sincerely,



Jeanne Deaver  
Administrative Services Manager