

Office of Audit Services



Public Agency Review

Metropolitan Water District of Southern California

**CalPERS ID: 4104962804
Job Number: P15-010**

August 2016



California Public Employees' Retirement System
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August 25, 2016

CalPERS ID: 4104962804
Job Number: P15-010

Diane Pitman, Human Resources Group Manager
Metropolitan Water District of Southern California
PO Box 54153
Los Angeles, CA 90054

Dear Ms. Pitman:

Enclosed is our final report on the results of the public agency review completed for the Metropolitan Water District of Southern California (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. We appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, Chief
Office of Audit Services

Enclosure

cc: Board of Directors, Metropolitan Water District of Southern California
Maggie Falcon, Payroll Administrator, Metropolitan Water District of Southern California
Gary Breaux, Chief Financial Officer, Metropolitan Water District of Southern California
Gerry Riss, General Auditor, Metropolitan Water District of Southern California
Risk and Audit Committee Members, CalPERS
Matthew G. Jacobs, General Counsel, CalPERS
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Chief, EAMD, CalPERS
Carene Carolan, Chief, MAMD, CalPERS

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RESULTS IN BRIEF

The objective of our review was to determine whether the Metropolitan Water District of Southern California (Agency) complied with applicable sections of the California Government Code (Government Code), California Public Employees' Pension Reform Act of 2013 (PEPRA), 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.

- Overtime was incorrectly reported as special compensation.
- Payrates were incorrectly reported.
- Compensation was not reported in accordance with the Government Code and CCR.
- Retroactive salary adjustments were incorrectly reported.
- Unused sick leave balance was incorrectly reported.

OAS recommends the Agency comply with applicable sections of the Government Code, PEPRA, 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, 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 the contract and 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 CalPERS Board of Administration (Board) approved plan, OAS reviewed the Agency's payroll reporting and member enrollment processes related to the Agency's retirement contract with CalPERS. The review was limited to the examination of sampled employees, records, and pay periods from July 1, 2011 through June 30, 2014. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency incorrectly reported overtime as special compensation.

Condition:

- A. The Agency incorrectly reported overtime pay as special compensation for a Pump Plant Specialist in the pay period ended June 7, 2014. Specifically, the Agency reported compensation paid to the employee for time worked on a holiday as Holiday Pay; however, the employee was not scheduled to work on the holiday. The employee was on standby and called in to work on a holiday on a scheduled day off. Compensation for time worked on a scheduled day off is overtime and not reportable per Government Code Section 20635.
- B. The Agency reported overtime pay as special compensation for the same employee discussed in Finding 1A. Specifically, the Agency reported 30 hours of compensation as Lead Pay for the pay period ended June 7, 2014. Although Lead Pay is listed as a reportable item of special compensation, the pay was not reportable to CalPERS because it was for overtime worked on the employee's scheduled days off.
- C. The Agency reported overtime as part of Fair Labor Standard Act Pay (FLSA) Premium Pay for a Water Treatment Plant Operator III during the pay period ended June 7, 2014. As discussed in Finding 3B, the employee was scheduled to work 43.5 hours in a one week period, which resulted in 3.5 hours of FLSA Premium Pay. However, the employee worked an additional half hour during the one week period, which was overtime. The Agency incorrectly reported 4 hours of FLSA Premium Pay as special compensation, including the half hour overtime.

Reporting overtime compensation results in the over payment of retirement benefits when a member retires.

Recommendation:

The Agency should ensure compensation is reported for work performed during normal working hours and overtime is not factored into special compensation reported to CalPERS.

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The Agency should work with CalPERS Employer Account Management Division (EAMD) to identify and make adjustments, if necessary, to any impacted active and retired accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20635, § 20636
CCR: § 571

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

2: The Agency reported incorrect payrates.

Condition:

- A. The Agency reported an incorrect payrate for an Operations and Maintenance Technician IV in the pay period ended June 7, 2014. Specifically, the Agency reported an hourly payrate of \$30.82; however, the correct payrate to report was \$41.09. At the time, the employee elected to receive 75 percent of his pay from an annual leave balance due to a disability. This was allowable per the Agency's written labor policy. However, the Agency should have continued to report the employee's normal or full payrate to CalPERS.
- B. The Agency reported payrates that exceeded the maximum payrates listed in the Agency's Board approved pay schedule. The General Manager, Assistant General Manager, General Counsel, Assistant General Manager Strategic Water Initiative, and General Auditor all received salary increases resulting in payrates that exceeded the maximum payrate listed on the pay schedule. For example, the Assistant General Manager received a pay increase to \$133.08 per hour; however, the maximum hourly payrate listed on the Agency's pay schedule was \$126.04.

Payrate is an important factor in computing a member's retirement allowance.

Recommendation:

The Agency should ensure payrates are reported correctly and in accordance with publicly approved pay schedules.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636
CCR: § 570.5

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3: The Agency incorrectly reported compensation.

Condition:

OAS identified several instances of incorrect payroll reporting for an employee in the position of a Water Treatment Plant Operator III.

- A. The Agency under reported regular earnings and over reported special compensation for the employee in the pay period ended June 7, 2014. The employee worked a normal schedule of 81 hours in the bi-weekly pay period. The Agency reported regular earnings for 77.5 hours and FLSA Premium Pay for 3.5 hours. The 3.5 hours were paid at time and a half. The Agency should have reported regular earnings for 81 hours at the employee's regular rate of pay and special compensation for 3.5 hours at the employee's half time rate of pay.
- B. The written labor policy between the Agency and the employee's bargaining group did not identify all of the conditions for payment of the FLSA Premium Pay. Specifically, the policy did not clearly identify the number of hours the employees were scheduled to work each week. More specifically, the policy listed the work schedule as 2-3-2, 5-2-7 and 7-7. The hours a Water Treatment Plant employee is normally scheduled to work each week is essential for calculating the correct amount of FLSA Premium Pay for reporting to CalPERS. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, the eligibility for, and amount of, the special compensation.
- C. The Agency incorrectly reported the number of work hours for the Water Treatment Plant Operator III. Specifically, the employee's regular schedule totaled 81 bi-weekly hours or the equivalent of 40.5 hours per week. The Agency incorrectly reported 40 scheduled hours per week instead of 40.5 scheduled hours per week.

Recommendation:

The Agency should ensure that regular earnings, FLSA Premium Pay and the number of hours an employee is scheduled to work per week are accurately reported to CalPERS.

The Agency should also ensure that conditions for payment of special compensation are contained in a written labor policy or agreement.

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The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20120, § 20121, § 20160, § 20630, § 20635, § 20636
CCR: § 571

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4: The Agency incorrectly reported a retroactive salary adjustment.

Condition:

The Agency incorrectly reported a retroactive salary adjustment for a Senior Resource Specialist. The Agency paid the employee a lump sum amount of \$3,322.40 on December 12, 2012 to cover three salary increases. Although the increases took place on February 5, 2012, April 1, 2012 and April 29, 2012; the Agency reported one salary adjustment. Specifically, the Agency reported the \$3,322.40 in earnings with an hourly payrate of \$61.56 for the pay period ended February 18, 2012. The Agency should have reported three separate adjustments, using the correct payrate and earnings amount for each period. Government Code Section 20630(b) requires the employer to identify the pay period in which the compensation was earned regardless of when reported or paid, and Government Code Section 20636 requires the employer to report the correct payrate.

Retroactive salary adjustments are used to capture salary increases covering multiple periods. For retroactive pay increases, the Agency should also provide the inclusive dates of the increase as well as the new payrate, total earnings, and contributions for the period of the increase.

Recommendation:

The Agency should ensure retroactive salary adjustments are reported with the correct payrate and for the period earned.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20630, § 20636

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5: The Agency reported incorrect unused sick leave balance for a retiring member.

Condition:

The Agency did not certify the correct number of sick leave days for a retiree. The Agency certified a balance of 797.651 hours, equivalent to 99.75 days, of unused sick leave for a retiree. However, the correct balance was 91.71 days. 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 the additional service credit.

Recommendation:

The Agency should ensure unused sick leave balances are correctly reported for retiring members.

The Agency should work with EAMD to identify and make adjustments, if necessary, to any impacted active and retired member accounts 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 outlined in Appendix A. The procedures performed provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract 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, of California Code of Regulations.

Respectfully submitted,

Original signed by Beliz Chappuie

BELIZ CHAPPUIE, CPA, MBA
Chief, Office of Audit Services

Staff: Cheryl Dietz, CPA, Assistant Division Chief
Alan Feblowitz, CFE, Senior Manager
Dennis Szeto, Lead Auditor

**METROPOLITAN WATER DISTRICT OF
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APPENDIX A

OBJECTIVES

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

OBJECTIVES

The objectives of this review were to determine whether the Agency complied with:

- Applicable sections of the Government Code (Sections 20000 et seq.), PEPRA, and Title 2 of the CCR.
- Reporting and enrollment procedures prescribed in the Agency's retirement contract with CalPERS.

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.

METHODOLOGY

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 time records
 - Agency payroll information including Contribution Detail Transaction History reports
 - Documents related to employee payrate, special compensation, and benefits
 - Various other relevant documents
- ✓ 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 meetings 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 unlawful employment occurs.
- ✓ 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 entity organizational structure to determine whether employees of the affiliated entity qualified for CalPERS membership and were enrolled as required.
- ✓ Reviewed the Agency's calculation and reporting of unused sick leave balances, if contracted to provide additional service credits for unused sick leave.

**METROPOLITAN WATER DISTRICT OF
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APPENDIX B

AGENCY'S WRITTEN RESPONSE



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Office of the General Manager

August 3, 2016

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

Re: CalPERS ID: 4104962804
Job # P15-010

Dear Ms. Chappuie:

This letter is to acknowledge receipt and to provide a written response to the draft compliance review, dated June 30, 2016 regarding the Metropolitan Water District of Southern California's contract with the California Public Employees' Retirement System.

The Metropolitan Water District appreciates the professionalism and assistance Dennis Szeto provided throughout the process. This response is delayed due to already planned vacation schedules and we appreciate the additional time allowed to provide our response. Metropolitan offers the following responses to the draft compliance review report.

Finding 1: The Agency incorrectly reported overtime as special compensation.

Metropolitan's Response: After further review and explanation of the examples provided, Metropolitan acknowledges that the individuals described are scheduled on a 12 and a half hour shift. This shift is an approved schedule by CalPERS that provides scheduled overtime as special compensation. The administration has been consistent since the beginning of the program and the errors referenced in the audit may be rare occasions and administered appropriately based on our understanding of the CalPERS requirements. After Mr. Szeto shared a copy of a Circular Letter dated October 2014, staff now has clarity regarding the Holiday Pay recommendation. Regardless of the results of the specific examples, Metropolitan will work with the CalPERS Employer Account Management Division (EAMD) to determine the appropriate procedures for handling special compensation and overtime pay.

Finding 2: The Agency reported incorrect pay rates.

Metropolitan's Response: Every year Metropolitan's Board approves a salary schedule in compliance with California Code of Regulations, Section 570.5. The two examples found during the audit were anomalies and have since been rectified. Specifically, employees receiving 75% or 50% pay have their regular hourly rate reported regardless of total amount paid for a specific pay period. The second example of individuals exceeding the maximum pay rates listed in the recently approved Board schedule was an oversight based on recent Board action approving such pay rates but the salary schedule not being updated timely. Metropolitan now understands that if any pay rate is revised by Memorandum of Understanding or Board action, an updated salary schedule must also be approved in accordance with CCR Section 570.5 as soon as administratively possible.

Finding 3: The Agency incorrectly reported compensation.

Metropolitan's Response: This Finding is related to Finding #1 and examples provided are individuals on the 12 and a half hour shift that includes regularly scheduled overtime that is considered special compensation. Metropolitan understands the recommendation to ensure that distinguishing between regularly scheduled hours and special compensation hours is important and will work with the EAMD to determine the best approach to accomplish proper reporting. In addition, Metropolitan will work on documenting the conditions for payment of the special compensation at the next negotiations session with the appropriate bargaining unit, later this year.

Finding 4: The Agency incorrectly reported a retroactive salary adjustment.

Metropolitan's Response: Metropolitan processes numerous amount of retroactive salary adjustments every year. Sometimes, every employee at Metropolitan will receive a retroactive adjustment. These adjustments are even more complicated when there are multiple changes within a period of time. Metropolitan changed their reporting process in 2014 to break out the various periods of time, pay rates and earnings when retroactive salary adjustments occur. This finding has been corrected and should not be an issue moving forward.

Finding 5: The Agency reported incorrect unused sick leave balance for a retiring member.

Metropolitan's Response: In the past, the normal CalPERS procedure was to report sick leave balances for employees at the time of retirement application. That process required staff to report a balance prior to an employee's retirement. In the example provided, the employee used sick days after the retirement paperwork was submitted which is why there was an error in reporting. The revised procedure implemented by CalPERS allows payroll staff to provide sick leave balances after

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the employee has already stopped working, or retired. This process will prevent any errors in this area moving forward.

In closing, Metropolitan appreciates CalPERS' diligence in upholding regulations and bringing issues to the agency's attention. Please contact me at (213) 217-7028 if you have any further questions.

Sincerely,



Original signed by Dian Pitman

Diane Pitman
Human Resources Group Manager

Cc: Maggie Falcon, Payroll Administrator, Metropolitan
Gary Breaux, Chief Financial Officer, Metropolitan
Gerry Riss, General Auditor, Metropolitan
Anthony Suine, Chief, BNSD, CalPERS
Renee Ostrander, Chief, EAMD, CalPERS
Carene Carolan, Chief, MAMD, CalPERS