



California Public Employees' Retirement System  
Office of Audit Services  
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June 26, 2018

CalPERS ID: 7955361313  
Job Number: 3P17-051

Alan Clanin, General Manager  
Crestline Village Water District  
777 Cottonwood Drive  
Crestline, CA 92325

Dear Mr. Clanin:

Attached is the draft report on the results of our review on increases to member payrates reported to CalPERS by the Crestline Village Water District (Agency). Please review the draft report and provide your written response stating whether you agree or disagree with the observations by July 10, 2018. The report should be kept confidential and not be reproduced.

The Office of Audit Services will issue one final report that summarizes the results of 64 agencies reviewed to determine whether reported increases to payrates were in compliance with the Public Employees' Retirement Law. We will include each agency's results and summarized response as an attachment to the final report.

We appreciate the Agency's cooperation during the review. If you have any questions, please contact Edward Fama (916) 795-0523.

Sincerely,

Original signed by Beliz Chappuie

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

Enclosure

cc: Anthony Suine, Chief, BNSD, CalPERS  
Renee Ostrander, Chief, EAMD, CalPERS  
Don Martinez, Chief, MAMD, CalPERS

# CRESTLINE VILLAGE WATER DISTRICT

## Objective and Scope

CalPERS ID	Job Number	Contract Date	Classification
7955361313	3P17-051	May 5, 2007	Miscellaneous

The objective of our review was to determine whether increases to member payrates were granted to members and reported to CalPERS in compliance with the Public Employees' Retirement Law (PERL). Reporting active member payrates correctly is a necessary precursor to correctly calculating member benefits at retirement. Specifically, incorrect reporting could cause the following: miscalculation of a member's service credit, miscalculation of a member's retirement allowance, delays in processing a member's retirement benefits, inaccurate retirement estimates, incorrect payment of benefits, and hardship to retired members due to a reduction in benefits.

Payrates must be reported to CalPERS in accordance with Government Code sections 20636, 20636.1, 7522.34(a) and corresponding sections of the California Code of Regulations (CCR) section 570.5. Specifically, payrate is defined as the normal monthly rate of pay or base pay of the member paid pursuant to a publicly available pay schedule for services rendered on a full-time basis during normal working hours. The publicly available pay schedules must meet criteria listed in CCR section 570.5. Payrates cannot include additional compensation such as special compensation, must be correctly calculated, must be accurately reported for the period earned, and cannot be granted or awarded to a member in connection with or anticipation of separation from employment.

The review was limited to the examination of a sample of active and/or retired employee records for the period July 1, 2012 to June 30, 2017. Unless otherwise specified, the Office of Audit Services (OFAS) did not review the Agency's compliance with the PERL with regard to any areas outside the scope described herein, including, but not limited to, reported earnings, special compensation, payroll information, member contributions, membership enrollment, or employment after retirement.

## Results in Brief

	Area	Exception	Observation
1	Pay Schedule	Approval	The Agency did not maintain pay schedules in compliance with the requirements set forth in the Government Code and the CCR. Specifically, the pay schedules, effective June 3, 2016 and June 2, 2017, were not duly approved and adopted by the governing body as defined in Government Code sections 20636, 7522.34(a) and CCR section 570.5.

# CRESTLINE VILLAGE WATER DISTRICT

	Area	Exception	Observation
2	Payrates	Additional Compensation	The Agency reported payrates that included additional compensation. Specifically, two sampled employees, one active and one who retired in May 2017, had longevity pay added to their base payrate. The variances ranged from \$1.99 to \$4.96 per hour. The incorrect reporting resulted in an increase to the employees' reported payrates that were not in compliance with Government Code section 20636 and 7522.34(a).

## Criteria

Under Government Code sections 20636, 20636.1 and 7522.34, payrate is defined as the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal work hours, pursuant to 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; and
- Not reference another document in lieu of disclosing the payrate.

## Recommendation

The Agency should ensure reported payrates are granted and reported to CalPERS in compliance with the PERL. The Agency should work with the CalPERS Employer Account Management Division to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

Government Codes: § 20120, § 20121, § 20122, § 20160

# CRESTLINE VILLAGE WATER DISTRICT

## Conclusion

OFAS limited this review to the areas specified in the objective and scope section of this report. Sample testing procedures provide reasonable, but not absolute, assurance that the Agency complied with the specific provisions of the PERL and CalPERS contract that were subject to this review. The results 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 with regard to the results noted within the report. The appropriate CalPERS divisions will notify the Agency of the final determinations and provide appeal rights, if applicable, at that time.

# CRESTLINE VILLAGE WATER DISTRICT

## Confidential List

Sampled Employee	CaIPERS ID	Earned Period End Date	Reportable Payrate	Observation/Description
Chris Heryfod	5611946289	August 12, 2016	\$47.79	The Agency reported an incorrect hourly payrate of \$52.75 as a result of adding longevity pay to the base payrate as noted in Observation 2. The Agency should have reported an hourly payrate of \$47.79.
Steven Wood	6279995892	June 2, 2017	\$42.24	The Agency reported an incorrect hourly payrate of \$45.48 as a result of adding longevity pay to the base payrate as noted in Observation 2. The Agency should have reported an hourly payrate of \$42.24.
		June 16, 2017	\$43.33	The Agency reported an incorrect hourly payrate of \$46.67 as a result of adding longevity pay to the base payrate as noted in Observation 2. The Agency should have reported an hourly payrate of \$43.33.
		August 12, 2016	\$39.22	The Agency reported an incorrect hourly payrate of \$41.21 as a result of adding longevity pay to the base payrate as noted in Observation 2. The Agency should have reported an hourly payrate of \$39.22.



BOARD OF DIRECTORS  
Connie S. Bracher  
Darel V. Davis  
Steven C. Farrell  
Robert Kinzel  
Kenneth L. Stone

GENERAL MANAGER  
Alan E. Clanin

July 10, 2018

California Public Employees' Retirement System  
Beliz Chappuie  
P.O. Box 942701  
Sacramento, CA 94229

Crestline Village Water District, Response to Draft Review Report and Reported Results for Review Report Dated June 26, 2018 (CalPERS ID 7955361313, Job Number 3P17-051).

### Response to Exception 1 – Pay Schedule Approval

All initial pay rates, employee positions, time base and the effective dates pertaining to District salary schedules are approved by the District's Board of Directors. Exception 1 is based on the salary schedule approval requirements of CCR Section 570.5 and an interpretation that does not adequately represent the substance of that Section as it applies to the District's governance approval process. The District contends that the 2016 and 2017 salary schedules are properly approved per the requirements of CCR Section 570.5.

It should be noted that CCR Section 570.5 does not specify a time line for approval or state that the schedule must be approved in full or all at once; it simply states that the salary schedule must be approved. This requirement would be met by approving the initial salary schedule or each initial salary schedule component then approving any change as they occur. Since all the components of the schedule are properly approved, the full schedule would in essence and in fact be approved as required. The Section does not state that every time a pay rate is changed the entire schedule must be re-approved. It is the District's policy and standard procedure to approve individual changes to the previously approved salary schedules as they occur and not to re-approve the entire salary schedule every time a change is made.

In exception 1, the observation paragraph specifically references the June 3, 2016 and June 2, 2017 salary schedules and makes the assertion that these specific schedules were not properly approved. In both instances the sole change in the salary schedule was to make a cost of living increase that was applied to all salaries. The cost of living adjustments were approved by unanimous vote at a duly noticed meeting of the Board of Directors on June 21, 2016 and June 27, 2017 respectively. Again pursuant to CCR Section 570.5, there is no requirement that the salary schedule be re-approved in full every time a properly approved change is made to the already approved salary schedule.

*Providing our community with a reliable water system that delivers high quality water for its health and safety needs.*

Every facet of the District's salary schedules has been properly approved and the District strongly disagrees with exception 1 and requests that it be removed from the draft review report.

Response to Exception 2 - Salary Ranges "Longevity" L1 – L4

It appears that the District's salary steps L1 – L4 were misconstrued during the review process, this was likely due to the use of the word "Longevity" to describe the L1 – L4 salary steps. As discussed below, these salary steps are consistent with the definition of "Pensionable compensation" as defined by Government Code Section 7522.34(a), provide compensation included in the definition of "pay rate" given by Government Code Section 20636(b)(1), were properly approved by the District's Board and are no different in substance than salary steps A – E which are not being questioned. These salary steps clearly do not represent "Additional Compensation" as described in the exception 2 description paragraph.

The District added longevity salary steps to the District's salary schedule through Board approval at the District's July 21, 2015 Board meeting. An excerpt from the minutes approving the salary steps is included below to provide a clear understanding of the nature of salary ranges L1 – L4.

*"CONSIDER SALARY AND BENEFIT SURVEY: After considering the survey results and the Board's request to better the District's position in retaining current employees and to attract future employees, Manager Drew made the following recommendations to the Board:*

*Add longevity Steps L1, L2, L3 and L4 to the Salary Schedule, to become effective July 31, 2016. All regular employees will be eligible for Step L1 after completing 10 years of service, and then Steps L2 – L4 after 5 years of service between subsequent steps, in addition to a merit rating of at least satisfactory. Step L1 will be 2.5% above Step E of the Salary Schedule, with a 2.5% increase between each subsequent step."*

It is the District's position that the "Longevity" salary steps are simply additional salary steps included in the salary schedule. There are no restrictions on the number of salary steps the District can implement within Government Code Section 20636. The District implemented the L1 – L4 salary steps to have non-negotiated salary ranges for future employee recruitment and to give District employees the opportunity to grow their careers within a small District. Including the L1 – L4 salary ranges with years of service requirements restricted the pay level new employees can negotiate for. Specifically, a new employee can only negotiate for a maximum salary range of step E as the years of service requirement would preclude negotiating for steps L1 – L4. At the same time the District is a small employer and it is in the District's best interest to retain employees. This is complicated by a historically low employee turnover rates at the District. To keep employees from topping out at step E and running the risk that they will leave for a larger District with more frequently available promotion opportunities, the District added the L1 – L4 salary steps.

The inclusion of the L1 – L4 salary steps is consistent with the definition of “Pensionable compensation” as defined by Government Code section 7522.34(a). The L1 – L4 salary steps are part of the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group of class of employment for service rendered on a full-time basis during normal work hours.

The L1 – L4 salary steps are in essence no different than the A – E salary steps. It appears, although no justification was provided, that the use of the descriptive term “Longevity” tiers is causing the L1 – L4 steps to be questioned. The pay rates in the L1 – L4 salary ranges are in fact derived directly from the highest non-L level salary step (step E). The District has time expectation for the A – E tiers as well. An employee is expected to move from one letter tier to the next every year with satisfactory performance evaluations. Progression into and through the L salary ranges is also based on performance evaluations (merit rating). This criteria is the same criteria used for salary ranges A – E. Based on these consideration, it is the District’s contention that the salary ranges L1 – L4 are in fact equivalent to salary ranges A – E.

The District would like to further point out that Government Code section 7522.34(c) (1) through (13) define non-pensionable compensation items. Of the 13 items listed 7 are clearly one time payments such as bonuses and payment for additional services rendered. The remaining items listed are in no way related to normal ongoing compensation. Compensation for salary ranges L1 – L4 is for normal services provided, is ongoing and will continue as part of normal pay as long as employment with the District continues; thereby, supporting the District’s assertion that steps L1 – L4 meet the requirements of pensionable compensation as defined by Government Code section 7522.34(a).

Finally, the observation paragraph of exception 2 calls steps L1 – L4 additional compensation. How this conclusion was reached is unclear as none of the cited statutes define “additional compensation”. No justification or reasoning is given for how compensation earned in steps L1 – L4 is not pensionable compensation as is asserted by the District. If the definition of pensionable compensation is going to be included in the review report, justification for how steps L1 – L4 compensation does not fit the definition based on its merits, not just the description of the steps, should be provided.

Based on these considerations, the District strongly disagrees with exception 2 and requests that it be removed from the draft review report.

Sincerely,



Alan Clanin, General Manger