

Office of Audit Services



Public Agency Review

Capistrano Unified School District

**CalPERS ID: 6860889051
Job Number: SP15-027**

May 2016



California Public Employees' Retirement System
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May 26, 2016

CalPERS ID: 6860889051
Job Number: SP15-027

Rich Montgomery, Executive Director, Human Resource Services/Compliance
Capistrano Unified School District
33122 Valle Road
San Juan Capistrano, CA 92675

Dear Mr. Montgomery:

Enclosed is our final report on the results of the public agency review completed for the Capistrano Unified School District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Finding 1 and 2C. We appreciate the additional information regarding Finding 1 and 2C that you provided in your response. After consideration of this information, our findings remain.

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 Trustees, Orange County Department of Education
Board of Trustees, Capistrano Unified School District
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

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RESULTS IN BRIEF

The objective of our review was to determine whether the Capistrano Unified School District (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 and observation during the review. Details are noted in the Results section beginning on page three of this report.

- Pay schedule did not meet all of the Government Code and CCR requirements.
- Special compensation was not reported in accordance with the Government Code and CCR requirements.
- Prior period earnings adjustment was incorrectly reported.
- Observation: Agency records did not agree with my|CalPERS information.

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 Orange County Schools, which includes the Agency, contracted with CalPERS effective March 1, 1949 to provide retirement benefits for miscellaneous members. Individual school districts, such as the Agency, input members' payroll into the Orange County Schools payroll system. The Orange County Schools report the monthly payroll for the school districts through my|CalPERS. By way of the Orange County Schools' 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 compliance with the PERL and its contract related to compensation and payroll reporting. Additionally, OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from

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July 1, 2013 through June 30, 2014. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

1: The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

Condition:

The Agency did not have a pay schedule that met all of the Government Code and CCR requirements. Specifically, the Agency did not maintain one pay schedule that identified the position title and payrate for every employee position. The Deputy Superintendent and Teacher positions were not included on the pay schedules. In addition, the pay schedules did not indicate the time base, such as hourly, daily, monthly, or annually. Further, multiple pay schedules were needed to identify position titles and payrates.

Only compensation earnable as defined under Government Code Section 20636.1 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; and
- Not reference another document in lieu of disclosing the payrate.

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Pay amounts reported for positions that do not comply with the payrate definition and pay schedule requirements cannot be used to calculate retirement benefits because the amounts do not meet the definition of payrate under Government Code Section 20636.1(b)(1). When an employer does not meet the requirements for a publicly available pay schedule, CalPERS, in its sole discretion, may determine an amount that will be considered to be payrate as detailed in CCR Section 570.5.

Recommendation:

The Agency should ensure it has a pay schedule that meets all of the Government Code and CCR requirements.

The Agency should work with CalPERS Employer Account Management Division (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, § 20636.1
CCR: § 570.5

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2: The Agency did not report special compensation in accordance with the Government Code and CCR.

Condition:

- A. The Agency did not report the monetary value for the purchase and rental of uniforms for classic employees. Specifically, the Agency provided uniforms for employees in the Maintenance and Operations Department and Transportation Department. However, the Agency did not report the monetary value for the purchase and rental of the uniforms. Government Code and CCR require the monetary value for the purchase, rental and/or maintenance of required clothing be reported as special compensation for classic employees.
- B. The Agency's written labor policy for Teamsters Local 952 employees did not include the conditions for payment of uniforms. Specifically, the written labor policy contained a provision for providing uniforms; however, it did not identify uniform amounts. CCR Section 571(b) requires the written labor policy or agreement contain the conditions for payment of, including, but not limited to, eligibility for, and amount of, the special compensation.
- C. The Agency incorrectly reported Shift Differential in base payrate and earnings for a bus driver in the pay period ended October 31, 2013. Although Shift Differential qualifies as special compensation as defined by CCR Section 571, it should be reported separately from base payrate and earnings.

Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms with all of the requirements listed in CCR Section 571(b). Specifically, special compensation is required to be contained in a written labor policy or agreement indicating the eligibility and amount of special compensation. Also, special compensation must be available to all members in the group or class, part of normally required duties, performed during normal hours of employment, paid periodically as earned, and historically consistent with prior payments for the job classification.

Recommendation:

The Agency should report the compensation paid and monetary value for the purchase, rental and/or maintenance of required clothing as special compensation for classic members.

The Agency should ensure the conditions for payment of special compensation items are contained in a written labor policy or agreements.

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The Agency should report items of special compensation separately from payrate and earnings.

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: § 20120, § 20121, § 20160, § 20630, § 20636.1
CCR: § 571

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3: The Agency incorrectly reported a prior period earnings adjustment.

Condition:

The Agency incorrectly reported a prior period earnings adjustment. Specifically, the Agency paid a heavy duty mechanic \$112.00 in the pay period ended November 30, 2013. However, the earnings were never reported to CalPERS. In the pay period ended March 31, 2014, the Agency reported a prior period earnings adjustment reversing out the earnings. Since the Agency never reported the compensation to CalPERS, the prior period adjustment resulted in the total annual earnings being under reported by \$112.00.

Recommendation:

The Agency should ensure it correctly reports compensation to CalPERS.

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: § 20120, § 20121, § 20160, § 20630, § 20636.1

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Observation: The Agency's records do not agree with my|CalPERS information.

Condition:

OAS reviewed active member census data used to calculate pension liability for financial reporting purpose pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans* requirements. The significant census data elements include, but are not limited to, date of birth, date of hire or years of service, marital status, gender, employment status (active, inactive, or retired), class of employee, and eligible compensation.

OAS identified 18 employees who had hire dates that were different from the hire dates in my|CalPERS. In addition, OAS identified 38 individuals who had employment statuses that were different from the employment statuses in my|CalPERS. The Agency's records show that the employees had separated from the Agency; however, the employees were not separated through my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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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
Chris Wall, Senior Manager
Dennis Szeto, Lead Auditor
Rebecca Honeywell, Auditor

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APPENDIX A

OBJECTIVES

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OBJECTIVES

The objectives of this review were limited 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.

Effective January 1, 2013, new enrollments are checked against the PEPRA definition of "new member," regardless of whether the enrollment is for a first time CalPERS member or an existing member. All members that do not fit within the definition of a new member are referred to as "classic members."

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 records to determine whether member census data agreed with my|CalPERS information.

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APPENDIX B

AGENCY'S WRITTEN RESPONSE



CAPISTRANO UNIFIED SCHOOL DISTRICT

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GARY PRITCHARD, PH.D.
SUPERINTENDENT
KIRSTEN M. VITAL

Dear Ms. Beliz Chappuie:

1: The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

(2) Pay schedules did not indicate the time base, such as hourly, daily, monthly or annually.

(3) The agency did not maintain one pay schedule that identified the position, title and pay rate for every employee position

We disagree that our publicly available salary schedules does mention the time basis as being "monthly" (2). Pursuant to Government Code Section 20636(b)(1), "pay rate" is defined as "the normal monthly rate of pay or base pay of the member". Our understanding is that classified employees (those qualifying for membership in CalPERS) are required to be provided salary schedules with a monthly time basis. Any rate which is not based on a monthly time basis is clearly identified on Capistrano Unified's salary schedules.

With regard to (3) above, we disagree with this finding and question the basis for it. Neither Government Code Section 20636 nor CCR 570.5 specifically requires an employer to maintain a single salary schedule for all positions. Government Code Section 20636 references "publicly available pay schedules", indicating that agencies may have multiple pay schedules. In fact, this would be a necessity for public agencies which have multiple collective bargaining agreements covering different classifications of employees. We recommend that this portion of Finding #1 be dismissed.

2: The Agency did not report special compensation in accordance with the Government Code and CCR.

We agree with the monetary value for our uniforms that were not reported for the Maintenance and Operations Department and Transportation Department. This special compensation will be correctly reported as described. However, we disagree with the shift differential reporting as we were instructed to pay shift differential as part of our driver's regular salary as long as it was listed on the salary schedules.

3: The Agency incorrectly reported a prior period of earnings adjustment.

We agree with findings and will correct.

Observation #1 - The Agency's records do not agree with my CalPERS information.

We will work with OCDE and CalPERS to make corrections to the individuals identified. Some of the discrepancies between Capistrano Unified and my CalPERS are the result of an employee being hired from a different school district. Capistrano would never have the original hire date of another school district in our system.

Original signed by Rich Montgomery

Rich Montgomery
Executive Director, Human Resource Services/Compliance
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