

Office of Audit Services



CalPERS

Public Agency Review

Orange County Schools

CalPERS ID: 2452571616
Job Number: SP15-005

May 2016



California Public Employees' Retirement System
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May 26, 2016

CalPERS ID: 2452571616
Job Number: SP15-005

Renee Hendrick
Associate Superintendent, Administrative Services
Orange County Schools
P.O. Box 9050
Costa Mesa, CA 92628

Dear Ms. Hendrick:

Enclosed is our final report on the results of the public agency review completed for the Orange County Schools (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for a portion of Finding 1. We appreciate the explanation you provided. After our analysis, our finding remains as stated 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 Trustees, Orange County Board of Education
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

ORANGE COUNTY SCHOOLS

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Scope.....	1
Office of Audit Services Review Results	2
1: Pay Schedule	2
2: Payrate and Earnings.....	4
Observation: Census Data Reporting.....	5
Conclusion	6
Objectives	Appendix A
Agency's Written Response	Appendix B

ORANGE COUNTY SCHOOLS

RESULTS IN BRIEF

The objective of our review was to determine whether the Orange County Schools (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 two of this report.

- Pay schedule did not meet all of the Government Code and CCR requirements.
- Payrate and earnings were 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 Agency contracted with CalPERS effective March 1, 1949 to provide retirement benefits for local miscellaneous members. 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 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 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's pay schedule did not meet all of the Government Code and CCR requirements.

Condition:

The Agency did not maintain a pay schedule that met all of the Government Code and CCR requirements. Specifically, the payrate for the Short Term position was not listed on a pay schedule. In addition, the pay schedules did not indicate the time base such as hourly, daily, bi-weekly, monthly, or annually. The Agency also did not maintain one pay schedule that identified the position title and payrate for every employee position. Multiple pay schedules approved by the Superintendent were needed to identify the position title 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; and
- Not reference another document in lieu of disclosing the payrate.

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(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.

ORANGE COUNTY SCHOOLS

Recommendation:

The Agency should ensure its pay schedule 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

ORANGE COUNTY SCHOOLS

2: The Agency incorrectly reported payrate and earnings.

Condition:

The Agency reported an incorrect payrate for a Short Term employee. Specifically, the Agency reported a payrate of \$1,000.00 per day; however, the employee was not paid on a daily basis. Per the Agency's contract, the employee's duties were to instruct courses and the employee was to be paid a maximum of \$1,000.00 per course credit during a one-year service period. Government Code Section 20636.1(b)(1) defines payrate 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 working hours pursuant to a publicly available pay schedule.

In addition, the Agency reported compensation for the Short Term employee in the pay period ended March 31, 2014. However, the employee earned the compensation during the period of November 2013 through January 2014. Government Code Section 20630 requires compensation to be reported in the pay period in which the compensation was earned.

Payrate and earnings are important factors in computing a member's retirement allowance because service credit and final compensation items are directly related to these components. Failure to correctly report payrate can impact the member's retirement benefits.

Recommendation:

The Agency should ensure payrate and earnings are correctly reported.

The Agency should ensure earnings are reported in the pay periods in which it was earned.

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, § 20630, § 20636.1

ORANGE COUNTY SCHOOLS

Observation 1: 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*. 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 seven employees whose hire dates obtained from the Agency's records were different from the hire dates in my|CalPERS. OAS also identified 23 employees whose employment statuses were different from the employment statuses in my|CalPERS. The Agency's records showed that the employees separated; 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.

ORANGE COUNTY SCHOOLS

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
Diana Thomas, CIA, CIDA, Senior Manager
Chris Wall, MBA, Senior Manager
Dennis Szeto, Lead Auditor
Aileen Wong, MBA, Lead Auditor

ORANGE COUNTY SCHOOLS

APPENDIX A

OBJECTIVES

ORANGE COUNTY SCHOOLS

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.

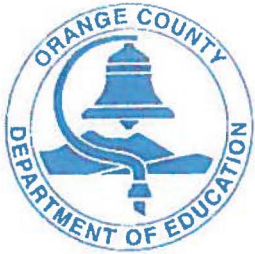
ORANGE COUNTY SCHOOLS

- ✓ 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.

ORANGE COUNTY SCHOOLS

APPENDIX B

AGENCY'S WRITTEN RESPONSE



March 30, 2016

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OF EDUCATION**
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AL MIJARES, Ph.D.
County Superintendent
of Schools

**ORANGE COUNTY
BOARD OF EDUCATION**

JOHN W. BEDELL, PH.D.

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ROBERT M. HAMMOND

LINDA LINDHOLM

KEN L. WILLIAMS, D.O.

California Public Employees' Retirement System (CalPERS)
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Chappuie,

The Orange County Department of Education (OCDE) is in receipt of the draft audit report dated March 21, 2016. The purpose of this letter is to respond to the two findings and one observation described in the draft audit report.

Finding #1 – The Agency's pay schedule did not meet all of the Government Code and CCR requirements.

The draft audit report specifically mentions three requirements related to this finding:

- (1) The pay rate for a short-term position was not listed on the pay schedule
- (2) Pay schedules did not indicate a time base such as hourly, daily, bi-weekly, monthly, or annually
- (3) The agency did not maintain one pay schedule that identified the position, title and payrate for every employee position

While we agree that the short-term position was not listed on the pay schedule (1), such individuals are provided individual contracts for limited projects and therefore do not have a job classification, static responsibilities, or recurring compensation. These types of employees are discussed further in Finding #2.

We agree that our publicly available salary schedules do not specifically mention the time basis as being "monthly"(2). Pursuant to Government Code Section 20636(b)(1), "payrate" 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 OCDE's salary schedules. Understanding that CalPERS is focused on specific verbiage included in Section 570.5 of the California Code of Regulations, we will add a literal which identifies all salary schedules as "monthly".

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

removed. OCDE will, however merge publicly available salary schedule documents with the list of positions covered under each schedule.

Finding #2 – The Agency incorrectly reported payrate and earnings.

This finding is related to a short-term employee who was paid \$1,000 at the completion of a project. This compensation was reported to CalPERS as a “daily” rate due to the system only allowing Monthly, Daily, or Hourly rates. We were informed that CalPERS will be providing official guidance on reporting compensation for these types of employees. In the past, short-term employees were not reported to CalPERS, then several years ago districts were informed that any “employee” must be reported to CalPERS, however no specific guidance was provided addressing the scenario of a short-term employee being paid non-recurring compensation. We have asked for clarification from CalPERS on these positions, as their compensation will never comply with the definition of “payrate” under Government Code 20636(b)(1). They will continue to be paid a lump-sum figure for performing specific services. We understand this finding and will work with CalPERS EAMD to identify any specific adjustments that are required for this individual.

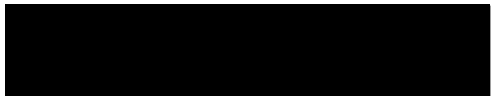
Observation #1 – The Agency’s records do not agree with my|CalPERS information.

We will work with CalPERS to make corrections to the individuals identified. Discrepancies between OCDE’s system and my|CalPERS are the result from a combination of the initial implementation of the my|CalPERS system, newly required fields, and other challenges encountered with the upload process. For example, when CalPERS initially loaded data into the my|CalPERS system thousands of invalid enrollment records were created for employees under OCDE’s employer account. These were employees from charter schools and local districts reporting through OCDE. Some of the employees included in Observation #1 are in fact not OCDE employees. OCDE and other county offices have requested that CalPERS provide an automated process whereby we may submit member data and receive membership information back from my|CalPERS in order to keep our systems in sync. As of the date of this letter, such a mechanism has yet to be created. Issues related to data not agreeing between our internal systems and my|CalPERS could be avoided if appropriate tolls and data access were available to employers.

Please convey our appreciation to your staff for the time and energy they invested this audit and for the courteous and professional manner in which it was performed.

If you have any questions or need anything further, please do not hesitate to contact our office.

Sincerely,



Original signature by Renee Hendrick

Renee Hendrick
Associate Superintendent, Administrative Services

CC: Wendy Benkert, Ed.D., Associate Superintendent, Business Services
Ronald D. Wenkart, General Counsel, Legal Services
Gary Stine, Director, Support Services