

# **Office of Audit Services**



## **Public Agency Review**

# **Newport-Mesa Unified School District**

**CalPERS ID: 2008027881  
Job Number: SP15-007**

**May 2016**



California Public Employees' Retirement System  
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May 26, 2016

CalPERS ID: 2008027881  
Job Number: SP15-007

Paul H. Reed, Deputy Superintendent & Chief Business Official  
Newport-Mesa Unified School District  
2985 Bear Street  
Costa Mesa, CA 92626

Dear Mr. Reed:

Enclosed is our final report on the results of the public agency review completed for the Newport-Mesa 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. We appreciate the additional information you provided in your response. After consideration of this information, the finding remains as stated.

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 Education, Newport-Mesa Unified School District  
Board of Trustees, Orange County Board of Education  
Russell Lee-Sung, Associate Superintendent, Newport-Mesa Unified School District  
Kristen Clark, Director, Newport-Mesa 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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# NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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## RESULTS IN BRIEF

The objective of our review was to determine whether the Newport-Mesa 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 requirements of the Government Code and CCR.
- Special compensation was not reported in accordance with the Government Code and CCR.
- 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 Orange County Schools contracted with CalPERS effective March 1, 1949 to provide retirement benefits for local miscellaneous employees. Individual school districts, such as the Agency, input members' payroll data into the Orange County School's payroll system. The Orange County Schools reports 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 July 1, 2013 through June 30, 2014. The scope was expanded to June 30, 2015 to include

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review of special compensation. 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 a pay schedule with every employee position and the time base for those positions.

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.

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.

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***Recommendation:***

The Agency should ensure that 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 incorrectly reported special compensation for its employees.

**Condition:**

- A. The Agency incorrectly included special compensation in payrate and earnings for two employees. Specifically, the Agency incorrectly included Bonus Pay in the amount of \$521.17 for an Administrative Director in the pay period ended June 30, 2014 and Longevity Pay in the amount of \$350.55 for a Transportations Parts Assistant in the pay period ended June 30, 2015. Because Bonus Pay and Longevity Pay are exclusively listed and defined within CCR Section 571 as well as included in the Agency's written labor agreement, they are reportable as special compensation. The Agency should report special compensation separately from base payrate and regular earnings.
- B. The Agency did not report the monetary value for the rental and maintenance of uniforms for classic employees who are required to wear uniforms. For example, the Agency provided a Transportation Parts Assistant with a rented uniform valued at \$5.61 in the June 2015 pay period. However, the Agency did not report the monetary value for the rental of the uniform as special compensation. Government Code Section 20636.1 and CCR Section 571 require the monetary value for the purchase, rental, and/or maintenance of required clothing to be reported as special compensation for classic employees.
- C. The Agency's written labor policies for California School Employees Association did not include the conditions for payment of uniforms. 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.
- D. The Agency incorrectly reported Education Incentive Pay as a lump sum amount. Specifically, the Agency' reported an annual Education Incentive Pay of \$1,140.00 for a School Attendance Technician in the pay period ended June 30, 2014. Government Code Section 20636.1(c)(3) requires the Agency to identify the pay period(s) in which special compensation was earned.

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.



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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 special compensation separately from base payrate and regular earnings.

The Agency should report the monetary value for the purchase and maintenance of uniforms as special compensation.

The Agency should ensure the conditions for payment of the employer-provided uniforms is contained in a written labor policy or agreement.

The Agency should report special compensation in the period(s) 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  
CCR: § 571

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**3:** The Agency incorrectly reported payrate and earnings.

***Condition:***

- A. The Agency incorrectly included non-reportable compensation in a School Attendance Technician's regular earnings in Fiscal Year 2013-14. Specifically, the Agency reported \$839.00 for performing various duties outside of normal working hours. For example, the Agency reported a payrate of \$10.00 per hour and earnings of \$225.00 for chaperoning a school dance which are not reportable since they are not part of the School Attendance Technician's base payrate and earnings as listed in the Agency's approved pay schedule. Compensation should be reported in accordance with Government Code Section 20636.1, which states that payrate is the normal or base rate of 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.
  
- B. The Agency also incorrectly reported earnings for the School Attendance Technician mentioned above in 3A in the pay period ended April 30, 2014. Specifically, the Agency docked \$168.68 of the employee's earnings in April 2014. However, the Agency did not report the reduced earnings in April. Instead, the Agency reported the dock to CalPERS in June 2014. To correct the over reporting of earnings in April, the Agency should have used a prior period adjustment. A prior period adjustment is used to adjust a prior period payroll record.

***Recommendation:***

The Agency should ensure compensation is reported correctly and in accordance with the Government Code.

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

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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*. 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 that hire dates in the my|CalPERS database did not agree to Agency records for 14 employees. OAS also identified 39 individuals that had employment statuses that were different from the employment status in my|CalPERS. Specifically, OAS identified 38 employees that separated from the Agency prior to June 30, 2014 while my|CalPERS appointments still show active. Finally, OAS identified one employee that was active with the Agency; however, my|CalPERS indicates the employee separated.

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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

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

Staff: Cheryl Dietz, CPA, Assistant Division Chief  
Alan Feblowitz, CFE, Senior Manager  
Chris Wall, Senior Manager  
Terry Heffelfinger, Auditor  
Earl Hsu, CFE, 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**





# ***NEWPORT-MESA Unified School District***

***2985 Bear Street • Costa Mesa • California 92626 • (714) 424-5000***

**BOARD OF EDUCATION**

**Dana Black • Walt Davenport • Martha Fluor  
Judy Franco • Charlene Metoyer • Vicki Snell • Karen Yelsey**

**Frederick Navarro, Ed.D., Superintendent**

April 27, 2016

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

Dear Ms. Chappuie,

This letter is in response to the draft compliance review dated April 5, 2016 regarding Newport-Mesa Unified School District's contract with the California Public Employee's Retirement System.

The District offers the following responses to the draft compliance review report:

Finding No. 1: The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

The District does not concur with CalPERS finding that all positions must reside in one document. The District publishes salary schedules online and also makes them available to the public at its District office. It is customary and helpful to the public to differentiate salary schedules by various employee groupings. The District recognizes CCR Section 570.5 requires time base for each position and will ensure compliance by updating salary schedules where appropriate.

Finding No. 2: The Agency incorrectly reported special compensation for its employees.

- A. The District concurs with the finding. The District will implement procedures to ensure special compensation is reported separately from base pay rate and regular earnings.
- B. The District concurs with the finding. The District will implement procedures to ensure the monetary value for the rental and maintenance of uniforms for classic employees is reported as special compensation.
- C. The District concurs with the finding. The District will develop written policy for special compensation associated with staff uniforms.

- D. The District concurs with the finding. The District will implement procedures to ensure the appropriate identification of pay period(s) in which special compensation is earned.

Finding No. 3: The Agency incorrectly reported pay rate and earnings.

- A. The District concurs with the finding. The District has trained and counseled staff to ensure compensation is reported in accordance with Government Code Section 20636.
- B. The District concurs with the finding. The District has trained and counseled staff to ensure a prior period adjustment is used to adjust a prior period payroll record.

The District appreciates the professionalism of Mr. Earl Hsu who conducted the audit. Please contact Jeff Trader at 714-424-5003, should you have any questions regarding the above District responses.

Best regards,

A black rectangular redaction box covering the signature of Paul H. Reed.

Original signed by Paul H. Reed

Paul H. Reed  
Deputy Superintendent & Chief Business Official

PHR:aj

C Russell Lee-Sung, Associate Superintendent, Chief Human Resources Officer  
Kristen Clark, Director – Classified Personnel