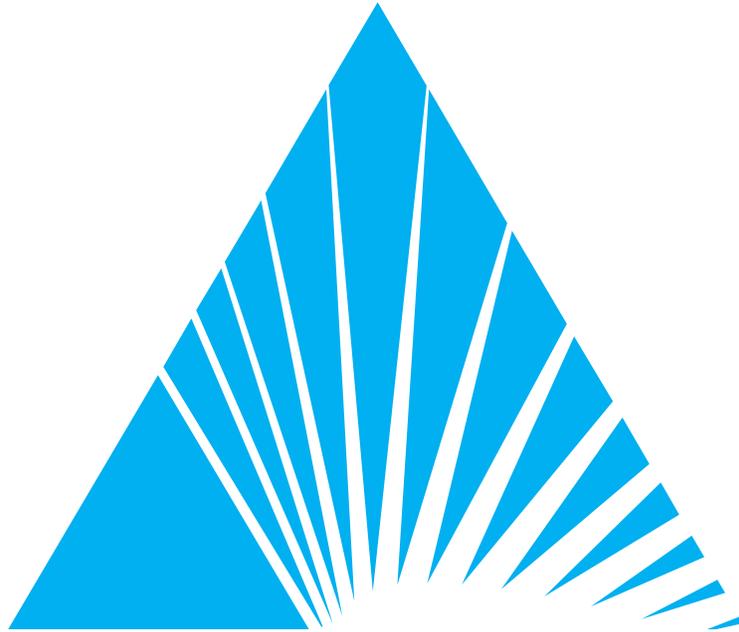


Office of Audit Services



CalPERS

Public Agency Review

Alameda County Office of Education

**Employer Code: 0248-001
CalPERS ID: 4306815740
Job Number: P12-001**

September 2013



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942715
Sacramento, CA 94229-2715
TTY: (877) 249-7442
(916) 795-0802 phone, (916) 795-7836 fax
www.calpers.ca.gov

September 25, 2013

Employer Code: 0248-001
CalPERS ID: 4306815740
Job Number: P12-001

Leigh Ann Blessing, Director, Internal Business Services
Alameda County Office of Education
313 W. Winton Avenue
Hayward, CA 94544

Dear Ms. Blessing:

Enclosed is our final report on the results of the public agency review completed for the Alameda County Office of Education. Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report, except for Finding 1. Based on your response we have added clarifying language to Finding 1. 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 the Alameda County Office of Education and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed By Margaret Junker
MARGARET JUNKER, Chief
Office of Audit Services

Enclosure

cc: Risk and Audit Committee Members, CalPERS
Gina M. Ratto, Interim General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

ALAMEDA COUNTY OFFICE OF EDUCATION

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ALAMEDA COUNTY OFFICE OF EDUCATION

RESULTS IN BRIEF

The California Public Employees' Retirement System (CalPERS) Office of Audit Services (OAS) reviewed the Alameda County Office of Education's (ACOE) enrolled individuals, member compensation, retirement information and other documentation for individuals included in test samples. A detail of the findings is noted in the Results section beginning on page three of this report. Specifically, the following findings were noted during the review:

- Pay schedule did not identify the position title for each position.
- Regular earnings were incorrectly reported.
- Special compensation was incorrectly reported.
- Scheduled hours per week were incorrectly reported for classified employees.
- Unused sick leave was overstated.

ACOE BACKGROUND

The ACOE was established in 1954. Its first five-member board was elected in 1956. The number of board members was increased to seven in 1960. Labor Agreements, Management Team Handbook and Rules and Regulations outline classified ACOE employees' salaries and benefits and state the terms of employment agreed upon between the ACOE and its employees.

The Alameda County Schools, which includes the ACOE, contracted with CalPERS effective July 1, 1949 to provide participation in CalPERS for local miscellaneous employees. The ACOE's certificated employees (i.e., school teachers) participate in the State Teachers' Retirement System. However, certificated employees who have established prior membership may elect to remain members of CalPERS.

Individual school districts input members' payroll into the payroll system. The ACOE reports the monthly payroll for the school districts through my|CalPERS. The individual school districts are responsible for making the necessary changes during the school year to the employee's position, assignment, salary rate, and the addition or deletion of employees to the payroll system. The ACOE audits the information provided by the Districts for any errors or discrepancies prior to entering the transactions into my|CalPERS.

Prior to the implementation of my|CalPERS on September 19, 2011, the members reported on the payroll listing were grouped by unit codes. The unit code is a unique number assigned to the ACOE and each of the school districts that are reporting to CalPERS under the same employer code. The Alameda County Schools is comprised of the ACOE, 18 school districts and three college districts. Our review was limited to the ACOE operating under Alameda County Services Unit

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Code 001. Castro Valley Unified School District – Unit 016 and Peralta Community College – Unit 063 were also reviewed and separate reports were issued in fiscal 2012/2013. Subsequent to my|CalPERS the ACOE and each school district within Alameda County Schools received a unique CalPERS ID.

All contracting public agencies, including the ACOE, are responsible for the following:

- Determining CalPERS membership eligibility for its employees.
- Enrolling employees into CalPERS upon meeting membership eligibility criteria.
- Enrolling employees in the appropriate membership category.
- Establishing the payrates for its employees.
- Approving and adopting all compensation through its governing body in accordance with requirements of applicable public meeting laws.
- Publishing all employees' payrates in a publicly available pay schedule.
- Identifying and reporting compensation during the period it was earned.
- Ensuring special compensation is properly identified and reported.
- Reporting payroll accurately.
- Notifying CalPERS when employees meet Internal Revenue Code annual compensation limits.
- Ensuring the employment of a retired annuitant is lawful and reinstating retired annuitants that work more than 960 hours in a fiscal year.

SCOPE

As part of the Board approved plan for fiscal year 2012/2013, the OAS reviewed the ACOE's payroll reporting and member enrollment processes as these processes relate to the Alameda County Schools' contract with CalPERS. The review period was limited to the examination of sampled records and processes from July 1, 2009 through June 30, 2012. The on-site fieldwork for this review was conducted on June 11 through June 14, 2012 and June 27 through June 28, 2012. The review objectives and a summary of the procedures performed are listed in Appendix B.

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OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: Pay schedule did not identify the position title for each position.

Recommendation:

The ACOE should list all employee positions on a pay schedule and disclose the information pursuant to California Code of Regulations Section 570.5.

The ACOE should work with CalPERS Customer Accounts Services Division (CASD) to ensure that the ACOE develops publicly available pay schedules that meet the criteria of California Code of Regulations Section 570.5.

The ACOE should work with CASD to determine the impact of this nondisclosure and make the necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

OAS reviewed the pay schedule for classified and management employees. The ACOE's pay schedules did not identify the position title for each position; therefore, was not in compliance with the requirements for publicly available pay schedules.

For the purposes of determining the amount of compensation earnable, a member's payrate is limited to the amount listed on a publicly available pay schedule. Per California Code of Regulations, Section 570.5, a pay schedule must, among other things:

- Be duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meeting 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.
- Not reference another document in lieu of disclosing the payrate.

The ACOE's pay schedule listed the Range, Step, Annual payrate, Monthly payrate, and Hourly payrate for each range and step, but did not list any position titles. In order to determine the payrate for certain position, OAS had to refer to the ACOE's Internal Alignment Chart to first identify the appropriate range for a position, and then refer back to the pay schedule to find the payrate for the range. Although a

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pay schedule can be one document with multiple pages, the pay schedule cannot refer to other separate documents.

Criteria:

Government Code: § 20160, § 20636 (b)(1)

California Code of Regulations: § 570.5

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Finding 2: Regular earnings were incorrectly reported.

Recommendation:

The ACOE should report earnings for all hours worked between the regular workweek and 40-hours per week at the normal hourly rate that corresponds with the salary schedule for all employees.

The ACOE should work with CASD to make the appropriate adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

The ACOE incorrectly reported regular earnings to CalPERS. Our sample testing revealed the ACOE did not correctly report regular earnings for the hours worked beyond the 37.5 hours per week (which the ACOE considers full-time). The earnings for hours worked above the normal work week of 37.5 hours and up to the full time equivalent of 40 hours a week were inconsistently reported. In some instances earnings were over reported beyond the 40 hours and in other instances the earnings were under reported. In addition, the earnings were reported at the overtime rate rather than the regular rate of pay for additional hours worked between the normal work week hours of 37.5 and 40 hours. The ACOE should report all hours worked between up to 40 hours per week at the hourly base payrate.

Criteria:

Government Code: § 20160, § 20630(b), § 20636.1(b)(1)

ALAMEDA COUNTY OFFICE OF EDUCATION

Finding 3: Special compensation was not reported as earned.

Recommendation:

The ACOE should report compensation in the pay period in which it was earned.

The ACOE should work with CASD to make the appropriate adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

The ACOE did not report special compensation in the period in which it was earned. Specifically, one sampled employee received a payment for “Out of Class” pay in May 2012 retroactive to February 2012; however, the out of class was incorrectly reported to CalPERS as a lump sum amount totaling \$3,549.08 in the earned period of May 2012, instead of as earned beginning with the effective date of February 2012.

Criteria:

Government Code: § 20160, § 20630(b)

CalPERS Public Agency Reference Guide, Payroll Reporting Procedures Section

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Finding 4: Scheduled hours per week were incorrectly reported for classified employees.

Recommendation:

The ACOE should report the scheduled work hours per week as 40 hours for all classified employees.

The ACOE should work with CASD to assess the impact of this incorrect reporting and make the necessary adjustments to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

The ACOE incorrectly reported the scheduled hours per week for classified employees. OAS reviewed the payroll information reported to CalPERS in my|CalPERS and found that the ACOE was incorrectly reporting the scheduled work week hours as 37.5 rather than 40 during fiscal year 2011/2012. Although the ACOE considers 37.5 hours as a full time work week, CalPERS requires school employers to report a 40 hour work week. The ACOE should have reported a 40 hour work week for all classified employees.

Criteria:

Government Code: § 20160, § 20636.1 (b)(1)

CalPERS Public Agency & Schools Reference Guide, Pay Rate and Earnings Relationship Section

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Finding 5: Unused sick leave was overstated.

Recommendation:

The ACOE should ensure the correct amount of unused sick leave is reported to CalPERS for retiring members.

CalPERS Benefit Services Division (BNSD) should make the necessary adjustment to the sampled member's retirement allowance. In addition, the ACOE should review the unused sick leave amounts reported to CalPERS for all employees who retired during the review period and make any necessary adjustments pursuant to Government Code Section 20160.

Condition:

The ACOE overstated the unused sick leave balance for one sampled employee. The ACOE's contract with CalPERS includes the provision of Government Code Section 20963, Credit for Unused Sick Leave, for all miscellaneous employees effective January 1, 1999. OAS reviewed a sample of four members who retired during the review period to determine whether the unused sick leave balances were correctly certified to CalPERS. OAS found the ACOE incorrectly reported unused sick leave balance of 31.280 days for one sampled member, instead of reporting the actual unused sick leave balance of 23.986 days. The ACOE should ensure that the unused sick leave balances are correctly certified when reporting to CalPERS. When the balance of unused sick leave at retirement differs from the balance initially certified, the contracting public agency should recertify the balance to CalPERS.

Criteria:

Government Code: § 20160, § 20630, § 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 as outlined in Appendix B. OAS limited the test of transactions to employee samples selected from the ACOE's payroll and health records. Sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code 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 ACOE 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, California Code of Regulations.

Respectfully submitted,

Original Signed By Margaret Junker
MARGARET JUNKER, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: September 2013

Staff: Cheryl Dietz, CPA, Assistant Division Chief

Michael Dutil, CIA, CRMA, Senior Manager

Alan Feblowitz, CFE, Manager

Adeeb Alzanoon, Auditor

APPENDIX A

BACKGROUND

ALAMEDA COUNTY OFFICE OF EDUCATION

BACKGROUND

California Public Employees' Retirement System

CalPERS provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CASD manages contract coverage for public agencies and receives, processes, and posts payroll information. In addition, CASD provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employer's knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

APPENDIX B

OBJECTIVES

ALAMEDA COUNTY OFFICE OF EDUCATION

OBJECTIVES

The objectives of this review were limited to the determination of:

- Whether the ACOE complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations.
- Whether prescribed reporting and enrollment procedures as they relate to the ACOE's retirement contract with CalPERS were followed.

This review covers the period of July 1, 2009 through June 30, 2012.

SUMMARY

To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the ACOE's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ Reviewed:
 - Provisions of the Contract and contract amendments between the Alameda County Schools, which includes the ACOE, and CalPERS
 - Correspondence files maintained at CalPERS
 - ACOE written labor policies and agreements
 - ACOE salary, wage and benefit agreements including applicable resolutions
 - ACOE personnel records and employee hours worked records
 - ACOE payroll information including Summary Reports and CalPERS contribution detail reports
 - Other documents used to specify payrate, special compensation, and benefits for all employees
 - Various other documents as necessary
- ✓ Reviewed ACOE payroll records and compared the records to data reported to CalPERS to determine whether the ACOE correctly reported compensation.
- ✓ Reviewed payrates reported to CalPERS and reconciled the payrates to ACOE 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 ACOE's governing body in accordance with requirements of applicable public meeting laws.
- ✓ Reviewed CalPERS contribution detail reports to determine whether the payroll reporting elements were reported correctly.

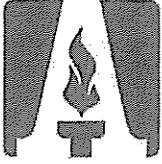
ALAMEDA COUNTY OFFICE OF EDUCATION

- ✓ Reviewed the ACOE's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.
- ✓ Reviewed the ACOE's enrollment practices for retired annuitants to determine if retirees were lawfully employed and reinstated when 960 hours were worked in a fiscal year.
- ✓ Reviewed the ACOE's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.
- ✓ Reviewed the ACOE's affiliated entities to determine if the ACOE shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the ACOE or by the affiliated entity.
- ✓ Reviewed the ACOE's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

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APPENDIX C

**OFFICE OF EDUCATION'S
WRITTEN RESPONSE**



Alameda County Office of Education

Sheila Jordan
Superintendent

Damon Smith
Associate Superintendent
of Business

L. Karen Monroe
Associate Superintendent
of Education

BOARD OF EDUCATION

Joaquin Rivera
Trustee Area 1

Marlon L. McWilson
Trustee Area 2

Ken Berrick
Trustee Area 3

Aisha Knowles
Trustee Area 4

Fred Sims
Trustee Area 5

Eileen McDonald
Trustee Area 6

Yvonne Cerrato
Trustee Area 7

September 3, 2013

Margaret Junker, Chief Office of Audit Services
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701

Dear Ms. Junker,

Subject: Response to Public Agency Review
Employer Code: 0248-001
CalPERS ID: 4306815740
Job Number: P12-001

After review of the report dated June 2013, Alameda County Office of Education responds as follows:

Finding 1:

ACOE believes it has substantially and effectively complied with the Education Code and requirements under 2 CCR § 570.5 relating to pay schedules; more specifically as it relates to the finding: "Pay schedule did not identify the position title for each position." ACOE does in fact maintain a list of all positions and their titles for each range on the salary schedule. This list is attached. This list is available on the website. If the finding means to express that ACOE did not include the list on the same sheet of paper as the salary ranges; to that end we concur. However we note no regulation that requires a salary schedule to fit on a single *page*. There is §570.5(a)(8) which requires that the pay schedule: "Does not reference another document in lieu of disclosing the pay rate." ACOE definitely discloses the pay rate on the pay schedule. It is our understanding that *documents*, by definition, exceed more than one page and that nothing prohibits a document from referencing itself. Further ACOE believes that the format that we are using is widely understood by the public and actually helps to facilitate the ease and reading of the document; which we understand to be the underlying intent of the law. Nonetheless, if CalPERS recommends or needs the salary schedule to conform to a more specific variant than explicitly proscribed in the CCR; ACOE is prepared to implement such a recommendation.

Finding 2:

We agree with the auditors' finding. ACOE became aware of this reporting discrepancy in March 2013, and has taken the appropriate steps to ensure current earnings were reported correctly. In addition, ACOE will work with CalPERS to ensure any needed adjustments from July 1, 2011 to present are made to affected member accounts.

313 W. Winton Ave.
Hayward, California
94544-1136

(510) 887-0152

www.acoe.org



Finding 3:

We agree with the auditors' finding. As a practice ACOE does report all special compensation separately in the pay period for which it was earned. The Payroll Department will work with Retirement to ensure all future special compensation is reported correctly. In addition, ACOE will review special compensation reported from July 1, 2011 to present and will work with CalPERS to apply any needed adjustments.

Finding 4:

We agree with the auditors' finding and will immediately update scheduled hours to 40 hours per week for all future reports. In addition, ACOE will work with CalPERS to make any necessary adjustments to member accounts from July 1, 2011 to present.

Finding 5:

We agree with the auditors' finding, and the following action will be taken to correct the situation. The Payroll Department will work with Human Resources to ensure a recertification of retiree's sick leave balance is reported to CalPERS when needed. In addition, ACOE will review all retiree unused sick leave reported from July 1, 2011 to present and will work with CalPERS to correct any discrepancies.

Sincerely,



Leigh Ann Blessing
Executive Director, Internal Business Services
Alameda County Office of Education

Cc Adeeb Alzanoon, Office of Audit Services, CalPERS

Att.

LAB:jl