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August 30, 2010

Employer Code: 235-002  
Job Number: P09-036

Alta-Dutch Flat Union Elementary School District  
Lori Warwick, Business Manager  
P.O. Box 958  
Alta, CA 95701

Dear Ms. Warwick:

Enclosed is our final report on the results of the public agency review completed for the Alta-Dutch Flat Union Elementary School District. Your district's written response indicates agreement with the issues noted in the report. The written response is included as an appendix to the report. As part of our resolution process, 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 district and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker

Margaret Junker, CIA, CPA, CIDA  
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS  
Peter Mixon, General Counsel, CalPERS  
Lori McGartland, Chief, ERSD, CalPERS  
Mary Lynn Fisher, Chief, BNSD, CalPERS  
Holly Fong, Chief, EMHS, CalPERS  
Honorable Board Members, Alta-Dutch Flat School District  
Cindy Davis, Accounting Technician, Placer County Office of Education

# **Alta-Dutch Flat Union Elementary School District**



## **Public Agency Review**



**Office of Audit Services**

**Employer Code: 235-002  
Job Number: P09-036**

**August 2010**

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# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

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## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Results in Brief.....	1
Background.....	1
Scope.....	2
Risk and Mitigation Table.....	5
Exceptions	
Risk 2: Payrate Reporting .....	5
Risk 3: Payroll Reporting.....	6
Risk 8: Health Forms.....	9
Risk 10: Health Contributions.....	11
Risk 11: Automated Communications Exchange System .....	12
Conclusion .....	14
District's Written Response .....	Appendix

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# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

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## RESULTS IN BRIEF

We reviewed the Alta-Dutch Flat Union Elementary School District's (District) enrolled individuals, health and retirement contributions, member earnings and required health, retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Payrate reported was not on publicly available salary schedule.
- Special compensation (longevity pay) was incorrectly reported.
- Payrate was incorrectly reported.
- Required health enrollment forms were not maintained.
- Health contribution payments were not remitted timely.
- Required ACES user security agreement form was not completed.

## BACKGROUND

The 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.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), 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.

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

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# **ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT**

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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 employers' 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.

The Alta-Dutch Flat Union Elementary School District maintains two schools, one in Alta and one in Emigrant Gap. Alta-Dutch Flat School opened in 1872 and serves children from Gold Run, Dutch Flat, Alta, Emigrant Gap, Blue Canyon and neighboring areas. It is located in the Sierra foothills of rural Placer County. Emigrant Gap School serves children from Emigrant Gap, Blue Canyon, and Nyack areas as well as students who request inter-district transfers to attend this school. Memorandum of Understanding (MOU) and employment agreements outline all District employees' salaries and benefits and state the terms of employment agreed upon between the District and its employees.

The Placer County Schools, which includes the District, contracted with CalPERS, effective July 1, 1949, to provide participation in CalPERS for local miscellaneous employees. The Placer County Schools contracted with CalPERS effective July 1, 1994 to provide health benefits for miscellaneous employees. The District's certificated employees (i.e., school teachers) participate in the State Teachers' Retirement System.

Individual school districts within Placer County Schools input members' payroll into the Placer County School payroll system. The County Office of Education (COE) reports the monthly payroll for the school districts through CalPERS' ACES. 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 COE audits the information provided by the Districts for any errors/discrepancies prior to entering the transactions into ACES.

The members reported on the payroll listing are grouped by unit codes. The unit code is a unique number assigned to the COE and each of the school districts that are reporting to CalPERS under the same employer code. The Placer County Schools, employer code 0235, is comprised of the County Office of Education and 17 school districts. We reviewed the COE and six school districts.

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# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

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For the purpose of reporting the results of our review, we used Employer Code 0235 in our review reports and the corresponding unit codes for the school districts reporting under this employer code. Following are the unit codes of the COE and the school districts we reviewed:

Placer County Office of Education – Unit Code 050

Sierra Joint Community College District – Unit Code 042

Rocklin Academy – Unit Code 062

Tahoe-Truckee Unified School District – Unit Code 021

Alta-Dutch Flat Union Elementary School District – Unit Code 002

Newcastle Elementary School District – Unit Code 012

Roseville Joint Union High School District – Unit Code 032

## SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the COE's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on January 7, 2010 through January 14, 2010.

The review period was limited to the examination of sampled records and processes from July 1, 2006 through June 30, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the Placer County Schools had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the District had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures.

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## **ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT**

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- ✓ Reviewed the payroll transactions and compared the District's payroll register with the data reported to CalPERS to determine whether the District correctly reported employees' compensation.
- ✓ Reviewed the District's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the District's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed the District's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the District's classification of employees to determine whether the District reported employees in the appropriate coverage groups.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Reviewed employees and their dependents to determine whether the District properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Reviewed health premium payment information to determine whether the payments were remitted within the required timeframe.
- ✓ Reviewed health contribution payments to determine whether the District contributed the correct employee/employer contribution amounts.
- ✓ Determined whether the District maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

## RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of six classified employees, including 12-month, 11-month, and 10-month employees, over fiscal year 2008/2009.</p> <p>The earnings reported to CalPERS were reconciled to the District's payroll records. The District accurately reported compensation to CalPERS in our sample.</p>	<p>None.</p>
<p>2. The District may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS and reconciled the payrates to the District's public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. The District properly paid and reported payrates in fiscal year 2008/2009 except in one instance. Specifically, one sampled employee's payrate was \$18.65 per hour, which exceeded the authorized payrate for a library assistant of \$13.71 per hour stated on the District's salary schedule.</p> <p>Government Code, § 20636(b)(1), defines payrate as, "The normal monthly rate of pay or base pay of the</p>	<p>The District should ensure all employee payrates are on a publicly available salary schedule.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The District may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p>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.”</p> <p>Government Code, § 20636(d), states, "Payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny."</p>	<p>section of the report was sent to the District and CalPERS ERSD as an appendix to our draft report.</p>
<p>3. The District may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS in fiscal year 2008/2009. Our sample testing revealed that the District correctly reported the payroll information to CalPERS except for the following instances:</p> <p><u>Special Compensation Included In Regular Earnings</u></p> <p>Three sampled employees received longevity pay as outlined in the Classified Employees Manual. The longevity pay was not listed on the District’s salary schedules; therefore, it should have been reported separately as special compensation. However, the District incorrectly reported longevity pay in base payrate and regular earnings. All special compensation is required to be reported separately as special compensation, as it is earned.</p>	<p>The District should report longevity pay separately as special compensation.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>Government Code, § 20636(b)(1), defines payrate as, "The normal monthly rate of pay or base pay of the member for services rendered on a full-time basis during normal working hours."</p> <p><u>Incorrect Payrates Reported</u></p> <p>The District reported incorrect payrates for four sampled employees. The normal full-time equivalent for the employees' positions was 40 hours per week, or 2080 hours per year. The District incorrectly reported the full-time equivalent payrates as follows: hourly rate x 2088 hours divided by 12 months. The payrate should have been reported as follows: hourly rate x 40 hours per week x 52 weeks divided by 12 months.</p> <p>Government Code, § 20636(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. Full-time employment is 40 hours per week, and payments for services rendered, not to exceed 40 hours per week, shall be reported as compensation.</p>	<p>A confidential list identifying the employees mentioned in this section of the report was sent to the District and CalPERS ERSD as an appendix to our draft report.</p> <p>The District should begin to calculate the base payrate based on the full-time equivalent of 40 hours per week.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report was sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Optional Membership</u></p> <p>Elected officers of a county superintendent of schools, school district, or community college district who serve on a public commission, board, council, or similar legislative or administrative body are eligible for optional rights if they continuously served in the office held on June 30, 1994. The District did not have any board members that were elected prior to July 1, 1994. As a result, the District's board members did not have membership rights and were properly excluded from CalPERS membership.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of five temporary/part-time employees and examined the number of hours worked in fiscal year 2008/2009 to determine whether they reached or exceeded the 1,000 hour membership eligibility criterion. Our sample testing revealed that the District properly excluded part-time employees who did not meet the 1,000 hour membership eligibility criterion.</p>	<p>None.</p> <p>None.</p>
<p>5. The District may unlawfully employ retired annuitants.</p>	<p>The District did not employ any retired annuitants during the review period.</p>	<p>None.</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
6. The District may not appropriately report members under the proper coverage group code.	Our sample testing revealed that the District reported individuals under the appropriate coverage group code.	None.
7. The District may not accurately report unused sick leave balances for retiring CalPERS members.	The COE's contract with CalPERS included the optional provision of Government Code, § 20965, credit for unused sick leave. However, the District did not have any members retire during the review period. The District was aware that unused sick leave balances were to be converted to days, using a divisor of eight, and certified to CalPERS upon retirement.	None.
8. The District may not properly enroll eligible employees and their dependents in health benefits.	<p>We reviewed a sample of four employees to assess the health benefits eligibility and enrollment of members and their dependents. Our sample testing revealed that the District did not maintain a copy of the required Declaration of Health Coverage Form (HB-12A) for one sampled employee enrolled in CalPERS health benefits program. In addition, the District did not provide copies of the required Health Benefits Plan Enrollment Form (HBD-12) and HB-12A for three sampled employees who declined the health benefits program.</p> <p>California Code of Regulation, § 599.500(h), states, "Register not to enroll means to file with the employing</p>	<p>The District must ensure that the proper member and dependent enrollment documentation is on file at the District within 60 days from the date of our final report.</p> <p>Please send an email to: <i>HBB_Audit_Services@calpers.ca.gov</i> once the requested documentation is on file. The CalPERS HBB may be contacted at (916) 795-3836 with any questions.</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>office a properly completed Health Benefits Plan Enrollment Form electing not to be enrolled in a health benefits plan.”</p> <p>California Code of Regulations, § 599.500(f), states, "Enroll means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing to be enrolled in a health benefits plan."</p> <p>The HB-12A form provides information on enrollment options and consequences for non-enrollment. The HB-12A is to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA). Effective January 1, 1998, each employee must sign the HB-12A when they are first eligible to enroll or when they make any change to their health coverage. This includes Open Enrollment changes, changing health plans when moving, adding or deleting a dependent, or canceling health benefits. The employer must provide the HB-12A at the time the employee requests enrollment or with the HBD-12 form. The employer also must provide the employee a copy of the signed form and keep the original in the employee's file.</p>	<p>A confidential list identifying the employees mentioned in this section of the report has been sent to the District and CalPERS HBB as an appendix to our draft report.</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The District may not contribute the appropriate health contribution amounts for active employees.</p>	<p>We reviewed the health contributions reported for December 2009. We determined that the District contributed the appropriate health contribution amount as part of the sampled members' total monthly premium amount.</p>	<p>None.</p>
<p>10. The District may not remit health contributions within the required timeframe.</p>	<p>We reviewed health contribution payments for November 2008, December 2008, and February 2009. We determined that the District did not remit the sampled contribution payments timely. Specifically,</p> <ul style="list-style-type: none"> <li>• November 2008. The contribution payment was received on December 27, 2008; however, the contribution was due on or before November 10, 2008.</li> <li>• December 2008. The contribution payment was received on December 27, 2008; however, the contribution was due on or before December 10, 2008.</li> <li>• February 2009. The contribution payment was received on March 12, 2009; however, the contribution was due on or before February 10, 2009.</li> </ul> <p>Government Code, § 22899(a), states, "The contributions required of a contracting agency, along with contributions withheld from salaries of its employees shall be forwarded</p>	<p>The District should ensure CalPERS receives health contribution payments by the 10th of each month for the months in which the payments are due.</p>

# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>10. The District may not remit health contributions within the required timeframe. (continued)</p>	<p>monthly, no later than the 10th day of the month for which the contribution is due."</p> <p>Government Code, § 22899(c), states, in part, "If a contracting agency fails to remit the contributions when due, the agency may be assessed interest at an annual rate of 10 percent and the costs of collection, including reasonable legal fees, when necessary to collect the amounts due...."</p>	
<p>11. The District may not maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the District's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users.</p> <p>We determined that the District maintained reasonable security precautions. However, the District did not maintain an ACES Employer User Security Agreement (AESD-43) for the one authorized ACES user. The District completed the User Security Agreement for the authorized user during the on-site fieldwork.</p> <p>CalPERS ACES Security procedures outlined on the CalPERS website at <a href="http://www.calpers.ca.gov">www.calpers.ca.gov</a> require agencies to keep a signed copy of security documents on file for ACES users. An AESD-43 must be completed for each</p>	<p>The District should ensure that ACES user security agreements are completed timely and retained in a secure worksite location for the life of the Agreements and for two years following deactivation or termination of the Agreements.</p> <p>A confidential list identifying the employee mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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## ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
11. The District may not maintain appropriate ACES security procedures. (continued)	employee using CalPERS on-line access and be available to CalPERS upon request. Forms must be retained in a secure work site location of the employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement. CalPERS is to be notified immediately in the event that any of its sensitive or confidential information is subjected to unauthorized disclosure, modification, or destruction.	

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# ALTA-DUTCH FLAT UNION ELEMENTARY SCHOOL DISTRICT

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## CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the District's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

Original Signed by Margaret Junker

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Margaret Junker, CIA, CPA, CIDA  
Chief, Office of Audit Services

Date: August 2010

Staff: Michael Dutil, CIA, Senior Manager  
Diana Thomas, CIDA, Manager  
Chris Wall  
Nancy Sayers

# APPENDIX

## DISTRICT'S WRITTEN RESPONSE

# ALTA-DUTCH FLAT UNION SCHOOL DISTRICT

P.O. Box 958 • 34050 Alta Bonny Nook • Alta, California 95701 • (530) 589-8285 • FAX (530) 589-2664

August 3, 2010

CalPERS

Office of Audit Services

Margaret Junker, CIA, CPA

Interim Chief Auditor, Office of Audit Services

RE: Public Agency Review letter Dated June 7, 2010

Dear Ms. Junker

We received review letter and agree with the recommendations in the report and have already implemented most of the exceptions and will fix the other items immediately.

I also wanted to say that having the review was also a learning experience for me as well and Nancy was a pleasure to work with.

Sincerely,



Lori Warwick

Business Manager

Alta-Dutch Flat School District