Office of Audit Services

Public Agency Review

Castro Valley Unified School District

Employer Code: 2048-016
CalPERS ID: 2620876407
Job Number: P12-003

June 2013

California Public Employees' Retirement System
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June 24, 2013

Employer Code: 2048-016
CalPERS ID: 2620876407
Job Number: P12-003

Castro Valley Unified School District
Gael Treible, Director of Business Services
4400 Alma Avenue
Castro Valley, CA 94546

Dear Ms. Treible:

Enclosed is our final report on the results of the public agency review completed for the Castro Valley Unified School District. Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for partial disagreement with Finding 5. Based on the information contained in your District's response pertaining to Findings 5, our recommendations 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 District 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: Sherry Beetz, Assistant Superintendent of HR, CVUSD
Leigh Ann Blessing, Director, Internal Business Services, ACOE
Risk and Audit Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Karen DeFrank, Chief, CASD, CalPERS
Anthony Suine, Chief, BNSD, CalPERS

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

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CASTRO VALLEY UNIFIED SCHOOL DISTRICT

RESULTS IN BRIEF

The Office of Audit Services (OAS) reviewed the Castro Valley School District's (District) 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 schedules did not meet the requirements of publicly available pay schedules.
- Reported payrates were under-reported.
- Regular earnings were under-reported.
- Shift differential pay was not reported.
- Compensation was not reported as earned.
- Longevity was erroneously reported with payrate and earnings.
- Employee with a membership reporting error.
- Employee with incorrect scheduled hours per week.
- Unused sick leave was erroneously reported.

DISTRICT BACKGROUND

The District was unified in 1965 under the laws of the State of California. The District is governed by a locally elected five-member Board and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nine elementary schools, two middle schools, one comprehensive high school, a continuation high school, an adult education site, and a special education preschool.

The Alameda County Schools (ACS), which includes the District, contracted with CalPERS effective July 1, 1949, to provide participation in CalPERS for local miscellaneous employees. The District'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. Employment agreements outline all District employees' salaries and benefits and state the agreed upon employment terms between the District and its employees.

Individual school districts input members' payroll into the payroll system. The ACS 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 ACS 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 ACS and each of the school districts that are reporting to CalPERS under the same employer code. ACS is comprised of 18 school districts. Our review was limited to the Castro Valley Unified School District - Unit Code 003. Subsequent to my|CalPERS each school district within ACS received a unique CalPERS ID.

All contracting public agencies, including the District, 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 District's payroll reporting and member enrollment processes as these processes relate to ACS' retirement 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 from August 13 through August 17, and October 19, 2012. The review objectives and a summary of the procedures performed are listed in Appendix B.

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

OFFICE OF AUDIT SERVICES REVIEW RESULTS

Finding 1: Pay schedules did not meet the requirements of a publicly available pay schedule.

Recommendations:

The District should work with the Customer Account Services Division (CASD) to ensure that the payrate for each position is clearly set forth in a publicly available pay schedule which has been duly approved and adopted by the District's Board pursuant to California Code of Regulations Section 570.5.

In addition, the District should work with CASD to assess the impact of this pay schedule issue and determine what adjustments, if any, are needed to active and retired member accounts pursuant to Government Code Section 20160.

Conditions:

The District's pay schedules for management and confidential employees were not duly approved and adopted by its Board. In addition, the pay schedules for management and certificated employees did not specify the actual payrate for services rendered on a full-time basis. To meet the requirement of a publicly available pay schedule, a pay schedule must, among other things, be 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, and show the full-time payrate for each position.

Criteria:

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

California Code of Regulations: § 570.5

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 2: Payrates were under-reported.

Recommendation:

The District should report the employees' position full-time equivalent payrates.

The District should work with CASD to access the impact of the under-reported payrates and determine what adjustments are needed for active and retired member accounts. To the extent that payrate was improperly calculated in the retirement allowance afforded to individuals who have already retired, a correction should be made pursuant to Government Code Section 20160.

Condition:

The District erroneously reported a reduced payrate to match earnings, instead of the full-time equivalent payrate for two sampled employees. As noted in Finding 1, the pay schedule for management and certificated employees did not specify the payrate for services rendered on a full-time basis. The reported payrate for certificated employees was based on 185 days worked per year at 7.17 hours per day, and the reported payrate for management employees was based on 225 days worked per year at eight hours per day. As a result, the payrates were under-reported.

Criteria:

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

California Code of Regulations: § 570.5

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 3: Regular earnings were under-reported.

Recommendation:

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

Condition:

The District did not report all the earnings for hours worked by an employee up to 40-hours per week. Specifically, an employee was paid at an overtime rate for working two additional hours on October 26, 2011; however, the earnings for the additional hours were not reported to CalPERS. As a result, earnings were under reported.

Even though the member was paid an overtime rate, any hours worked between the regular workweek and 40 hours per week are required to be reported to CalPERS at the straight time hourly rate that corresponds with the salary schedule for that classification.

Criteria:

Government Code: § 20160, § 20630(b)

CalPERS Public Agency & Schools Reference Guide

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 4: Shift differential pay was not reported.

Recommendation:

The District should report shift differential pay as special compensation in accordance with the requirements of California Code of Regulations Section 571.

The District should work with CASD to determine the impact of this non-reporting and make the necessary adjustment to active and retired member accounts pursuant to Government Code Section 20160.

Condition:

The District did not comply with requirements to report shift differential pay. Specifically, shift differential pay was not reported for a bus driver who worked a split shift for the District in fiscal year 2011/2012.

The District's agreement with the California School Employees Association provided that, "Bus drivers who work a split shift, which includes more than one hour of unscheduled time, shall receive a stipend equivalent to one hour of pay on days school is in session." Split shift compensation meets the definition of shift differential pay as defined by the California Code of Regulations Section 571(a), and should have been reported as special compensation.

Criteria:

Government Code: § 20160, § 20636 (a), § 20636(c)(3)

California Code of Regulations: § 571

Finding 5: Compensation was not reported as earned.

Recommendation:

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

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

Condition:

The District did not comply with the requirement to report compensation in the pay period earned for the following employees:

- A certificated 10-month employee worked 185 days from August 26 through June 15, 2012; however, the District reported the earnings from September 2011 through June 2012. The earnings for the month of August were not reported in the August earned period.

- Four sampled classified 10-month employees worked 194 days. One employee worked from August 31, 2011 through June 16, 2012, and three employees worked from August 29, 2011 through June 14, 2012. All four employees worked during the month of August; however, earnings were not reported for the August earned period.

- Separate timecards were completed for the additional hours worked beyond the contracted hours by the District's part-time employees. The work periods for the separate time cards were dated from the 11th of one month to the 10th of the following month, and the earnings were paid at the end of the month following the work period end date. Timecards for a sampled part-time employee showed the employee worked additional hours during the October 11 to November 10, 2011 work period; however, the October earnings were erroneously reported in the November earnings period.

Criteria:

Government Code: § 20160, § 20630(b)

CalPERS Public Agency & Schools Reference Guide

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 6: Longevity pay was erroneously reported with payrate and earnings.

Recommendation:

The District should ensure that longevity pay is reported to CalPERS separate from payrate and earnings.

The District should work with CASD to determine the impact of this incorrect reporting and determine what adjustments are needed to reported payrate and earnings or other areas needing adjustment pursuant to Government Code Section 20160.

Condition:

The District erroneously included longevity pay, a special compensation item, with the reported payrate and earnings for seven sampled employees during fiscal year 2011/2012.

The Public Agency and Schools Reference Guide states, “Each special compensation item should be separated into its own line item.”

Criteria:

Government Code: § 20160, § 20636(a), § 20636(c)(1), § 20636(c)(6)

California Code of Regulation: § 571

CalPERS Public Agency & Schools Reference Guide

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 7: Part-time employee was not enrolled in CalPERS membership timely.

Recommendation:

The District should monitor the hours worked in a fiscal year for part-time employees to determine when membership eligibility is met and immediately enroll employees who meet membership eligibility requirements.

The District should work with CASD to assess the impact of this membership eligibility issue and make the necessary adjustments needed pursuant to Government Code Section 20160.

Condition:

The District did not enroll an employee into CalPERS membership when membership eligibility requirements were met. Specifically, a part-time employee worked a total of 1,537.9 hours in fiscal year 2011/2012 and met CalPERS membership eligibility requirements in March 2012 by working 1,069.5 hours; however, the employee was not enrolled into CalPERS membership until May 1, 2012. The part-time employee should have been enrolled into CalPERS membership not later than the first day of the first pay period following April 1, 2012.

Criteria:

Government Code: § 20160, § 20305

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 8: Scheduled full-time hours per week were incorrectly reported.

Recommendation:

The District should report the scheduled full-time hours per week that reflect the normal full-time work schedule for employees in the same work group.

The District should work with CASD to assess the impact of this payroll reporting error and determine what adjustments, if any, need to be made to active and retired member accounts and pursuant to Government Code Section 20160.

Condition:

The District incorrectly reported the scheduled full-time hours per week for a sampled certificated employee. The regularly scheduled work week for District teachers is 35.85 hours per week. However, the District incorrectly reported 40 hours as the scheduled full-time hours per week.

It was noted that prior to the implementation of the my|CalPERS system (September 2011), the District reported the incorrect work schedule code of 173 for the employee. The correct work schedule code for employees regularly scheduled to work 35.85 hours per week was 156. Since the implementation of my|CalPERS, the work schedule code is no longer a required reporting element.

Criteria:

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

CalPERS Public Agency & Schools Reference Guide

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

Finding 9: Unused sick leave balance was erroneously not certified for a retiring member.

Recommendation:

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

The District should work with the Benefit Services Division (BNSD) should adjust the member's service credit for the days of unused sick leave that was not certified and adjust the member's retirement allowance pursuant to Government Code Section 20160.

Condition:

The District erroneously did not certify the unused sick leave balance for a retiring member. However, information provided by the District identified that the member had an unused sick leave balance of 161.68 hours or 20.198 days.

Criteria:

Government Code: § 20160, § 20965

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

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 District's payroll 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 District 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: June 2013
Staff: Cheryl Dietz, CPA, Assistant Division Chief
Michael Dutil, CIA, CRMA, Manager
Diana Thomas, CIA, CIDA, Manager
Chris Wall, Auditor
Jose Martinez, Auditor

APPENDIX A

BACKGROUND

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

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. CalPERS 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

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

OBJECTIVES

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

- Whether the District 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 District'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 District's personnel and payroll procedures, reviewed documents, and performed the following procedures.

✓ Reviewed:
- o Provisions of the Contract and contract amendments between the District and CalPERS
- o Correspondence files maintained at CalPERS
- o District Board minutes
- o District written labor policies and agreements
- o District salary, wage and benefit agreements including applicable resolutions
- o District personnel records and employee hours worked records
- o District payroll information including Summary Reports and CalPERS listings
- o Other documents used to specify payrate, special compensation, and benefits for all employees
- o Various other documents as necessary

✓ Reviewed District payroll records and compared the records to data reported to CalPERS to determine whether the District correctly reported compensation.

✓ Reviewed payrates reported to CalPERS and reconciled the payrates to District 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 District's governing body in accordance with requirements of applicable public meeting laws.

✓ Reviewed CalPERS listing reports to determine whether the payroll reporting elements were reported correctly.

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

- ✓ Reviewed the District's enrollment practices for temporary and part-time employees to determine whether individuals met CalPERS membership requirements.

- ✓ Reviewed the District'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 District's independent contractors to determine whether the individuals were either eligible or correctly excluded from CalPERS membership.

- ✓ Reviewed the District's affiliated entities to determine if the District shared employees with an affiliated entity and if the employees were CalPERS members and whether their earnings were reported by the District or by the affiliated entity.

- ✓ Reviewed the District's calculation and reporting of unused sick leave balances, if contracted to provide for additional service credits for unused sick leave.

CASTRO VALLEY UNIFIED SCHOOL DISTRICT

APPENDIX C

DISTRICT'S WRITTEN RESPONSE

Castro Valley Unified School District

EDUCATING ALL YOUTH FOR EXCELLENCE

BOARD OF EDUCATION
Jo A.S. Loss, President
George Granger, Vice-President/ Clerk
Charmaine Banther
John J. Barbieri
Janice Friesen

SUPERINTENDENT
Jim Negri

P.O. BOX 2146 • CASTRO VALLEY, CALIFORNIA 94546 • (510) 537-3000 • Fax (510) 886-8962

June 12, 2013

Ms. Margaret Junker, Chief
Office of Audit Services
California Public Employees Retirement System
P.O. Box 942701
Sacramento, CA 94229-2701

Re: Employer code: 2048-016
CalPERS ID: 2620876407
Job Number: P12-003

Dear Ms. Junker,

This letter is the response of the Castro Valley Unified School District to the draft audit report dated May, 2013.

Finding 1: Pay schedules did not meet the requirements of a publicly available pay schedule

The District agrees that, although it is the usual practice of the district, the particular pay schedule in question was not approved by the District's Board. The District agrees that the pay rate for each position was not approved. Although not Board approved, the pay schedule and pay rates were correctly paid and reported. The District will discuss this with CASD and ensure all pay schedules and pay rates are Board approved.

Finding 2: Pay rates were under-reported

The District agrees that the certificated employee pay rate was incorrectly reported. The District will work with CASD make a correction.

The District agrees that the management employee pay rate was based on 225 days and eight hours per day. These are the required work days for this employee. The District will work with CASD to determine the factors that are affecting management retirement.

Finding 3: Regular earnings were under-reported

The District agrees that the employee hours were incorrectly reported at the overtime rate. The District will work with CASD to make a correction.

Finding 4: **Shift Differential pay was not reported**

The District agrees that the stipend paid to bus drivers who work a split shift meets the definition of "shift differential" and should be reported as special compensation. The District will work with CASD to make a correction.

Finding 5: Compensation was not reported as earned

The District agrees that earnings for the month of August were reported in September. In this case, the work year is reported as ten months when we should be reporting eleven months. The district will work with CASD to make adjustments to active and retired member accounts.

The District also agrees that timecards are completed from the 11th of one month through the 10th of the following month and that all hours are reported in the second month. This practice allows time to generate the payroll and include as many days as possible, avoiding the situation where an employee has to wait an entire month for the previous month's pay.

This is a common practice in school districts and has been discussed with the CalPERS Advisory Committee. Our payroll networking group reports that Orange County Office of Education brought this topic up at an Advisory Committee meeting and was told that as long as the reporting was consistent, the split month method was acceptable.

In order to comply with the recommendation the payroll technician would have to manually separate the earnings for that portion of each timecard and post them separately into the financial system. There are several hundred timecards submitted each month. This would effectively double the timecard handling and posting. The payroll technician spends four days per month handling timecards. The District would need to hire additional staff resulting in the cost of approximately $12,000 annually for an additional four days per month. Since a school district position cannot be created for less than four hours per day, the more likely cost would be $35,000 annually.

The District does not agree that it should double its workload to report earnings for actual work days for each month. The District will discuss possible alternative solutions with CASD.

Finding 6: Longevity pay was erroneously reported with pay rate and earnings

The District agrees with the finding and recommendation.

Finding 7: Part-time employee was not enrolled in CalPERS membership timely

The District agrees with this finding and recommendation.

Finding 8: Scheduled full time hours per week were incorrectly reported

This is the same issue and the same employee noted in finding #2 for the certificated employee. The District agrees with the finding and recommendation.

Finding 9: Unused sick leave balance was erroneously not certified for a retiring member

The procedure for reporting unused sick leave is as follows:
Employees receive a booklet from CalPERS for retirement data gathering. The District enters the amount of unused sick leave in the booklet, which is then turned in to CalPERS by the employee. CalPERS sends a letter to the District requesting confirmation of the amount of unused sick leave reported. The District responds to these requests by certifying the amount or reporting a different amount. The employee in question may or may not have turned in the report. In any event, CalPERS did not request confirmation of the amount of unused sick leave for this employee.

The District agrees with the recommendation that we work with BNSD to adjust the member's service credit.

Thank you for your assistance and clarifications during the audit. We will await the final determinations from the appropriate CalPERS divisions.

Sincerely,

Gael Treible
Director, Business Services
510-537-3335 ext. 1223
gtreible@cv.k12.ca.us