

Office of Audit Services



Public Agency Review

Modesto City Elementary School District

**CalPERS ID: 7721152953
Job Number: SP15-020**

June 2016



California Public Employees' Retirement System
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June 23, 2016

CalPERS ID: 7721152953
Job Number: SP15-020

Michelle Price, Senior Director, Financial Services
Modesto City Elementary School District
426 Locust Street
Modesto, CA 95351

Dear Ms. Price:

Enclosed is our final report on the results of the public agency review completed for Modesto City Elementary School District (Agency). Your written response, included as an appendix to the report, indicates agreement with the issues noted in the report except for Findings 2A and 3B. We appreciate the additional information you provided in your response. After consideration of this information, we have removed finding 2A and added clarifying language to Finding 3B.

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, Modesto City Elementary School District
Pam Able, District Superintendent, Modesto City Elementary School District
Julie Betschart, Associate Superintendent, Modesto City Elementary 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

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

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MODESTO CITY ELEMENTARY SCHOOL DISTRICT

RESULTS IN BRIEF

The objective of our review was to determine whether the Modesto City Elementary 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 two of this report.

- Pay schedule did not meet all of the Government Code and CCR requirements.
- Payrate and earnings were incorrectly reported.
- Special compensation was not reported in accordance with the Government Code and CCR.
- Member contributions 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 by working with the appropriate CalPERS divisions to resolve issues identified in this report.

SCOPE

The Stanislaus County Schools, which includes the Agency, contracted with CalPERS effective November 1, 1948, to provide retirement benefits for miscellaneous members. By way of the Stanislaus 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 purposes pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 67: Financial Reporting for Pension Plans. The review was limited to the examination of the sampled employees, records, and pay periods from July 1, 2013, through June 30, 2014. OAS did not review the Agency's compliance with membership enrollment or employment after retirement. The review objectives and methodology are listed in Appendix A.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

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 included all positions, indicated an effective date and the time base for all positions, and was duly approved and adopted by the Agency's governing body in accordance with the requirements of applicable meeting laws.

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 its pay schedule meets all of the Government Code and CCR requirements.

The Agency should work with CalPERS Employer Account Management Division (EAMD) to identify and make adjustments, if necessary, to any impacted active and retired member accounts pursuant to Government Code Section 20160.

Criteria:

Government Codes: § 20160, § 20636.1

CCR: § 570.5

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

2: The Agency incorrectly reported payrate and earnings.

Condition:

The Agency reported an incorrect payrate for a school secretary. The Agency reported a monthly payrate of \$3,573.82 in each pay period during Fiscal Year 2013-14. However, the Agency should have reported a monthly payrate of \$3,276.00.

Payrates and earnings are important factors in computing a member's retirement allowance.

Recommendation:

The Agency should ensure payrate and earnings are correctly reported.

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: § 20120, § 20121, § 20160, § 20630, § 20636.1
CCR: § 571

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3: The Agency did not report special compensation in accordance with the Government Code and CCR.

Condition:

- A. The Agency incorrectly reported Off-Salary-Schedule Pay for four classified employees. The Agency's labor agreement provided for a one-time off the salary schedule payment equal to one percent of the actual end-of-month earnings for Fiscal Year 2012-13. However, the Agency over reported the Off-Salary-Schedule Pay due to a payroll system error. Specifically, the Agency reported either 1.09 percent or 1.2 percent of the employees' earnings each month. The Agency is working to correct the problem.
- B. The Agency also incorrectly reported the Off-Salary-Schedule Pay in lump sum amounts instead of the pay periods earned. Specifically, the Agency reported lump sum payments for the four classified employees discussed in Finding 3A as well as the Associate Superintendent. The collective bargaining agreement between the Agency and the California School Employees Association, Chapter 007 (Agreement), stated the Agency would make a payment equal to one percent of the actual end-of-month earnings for the period July 1, 2012 through June 30, 2013. The Agreement also stated the payment would be made to all bargaining unit members employed as of July 1, 2013. Government Code Section 20636(c)(3) requires the Agency to identify the pay periods(s) in which special compensation was earned. Therefore, the Agency should have reported the Off-Salary-Schedule Pay using the pay period for each month worked from July 1, 2012 through June 30, 2013 in which the pay was earned.
- C. The Agency did not report uniforms in accordance with the Government Code and CCR. Specifically, the Agency did not report the monetary value of uniforms provided to Campus Supervisors and Security Specialists enrolled as classic members. CCR Section 571 requires the monetary value for the purchase, rental, and/or maintenance of required clothing be reported as special compensation.
- D. The Agency's labor policy did not contain the monetary value of employer-provided uniforms. CCR Section 571(b) requires that 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.

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Reportable special compensation is defined in CCR Section 571(a) and must be reported if it conforms to 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. 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 in accordance with Government Code and CCR.

The Agency should ensure the monetary value of uniforms is reported as special compensation for classic members.

The Agency should ensure its written labor policy or agreement include the conditions for payment of uniforms.

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, § 20636.1
CCR: § 571

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

4: The Agency incorrectly reported member contributions.

Condition:

The Agency incorrectly reported the seven percent contributions paid by the members during the pay periods ended October 31, 2013, and November 30, 2013. Specifically, the Agency reported the contributions as Employer Paid Member Contributions.

Recommendation:

The Agency should ensure it correctly reports member contributions.

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: § 20120, § 20121, § 20160

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

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* requirements. 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 four employees who had hire dates that were different from the hire dates in my|CalPERS. In addition, the Agency over reported service credit for two sampled employees. OAS also found that 31 employees had been terminated from the Agency but the Agency did not update my|CalPERS with termination dates. In addition, ten employees were members of the California State Teachers Retirement System, but concurrently enrolled in CalPERS. Further, one employee was not enrolled in my|CalPERS. OAS recommends the Agency work with the appropriate CalPERS division to make any corrections, if necessary.

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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

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
Patrick McCasland, CPA, Lead Auditor
Zach Barlow, Auditor

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

APPENDIX A

OBJECTIVES

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

OBJECTIVES

The objectives of this review were 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 procedures prescribed in the Agency's retirement contract with CalPERS.

METHODOLOGY

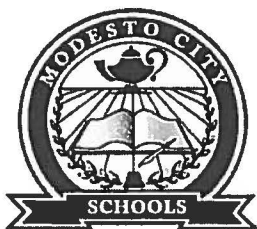
To accomplish the review objectives, OAS interviewed key staff members to obtain an understanding of the Agency's personnel and payroll procedures, reviewed documents, and performed the following procedures.

- ✓ 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.
- ✓ 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.

APPENDIX B

AGENCY'S WRITTEN RESPONSE

Note: The Agency provided attachments to the response that were intentionally omitted from this appendix.



5/19/2016

Board of Education

Steven Grenbeaux
President

Sue Zwahlen
Vice President

David Allan
Board Member

Chad Brown
Board Member

Cindy Marks
Board Member

Amy Elliott Neumann
Board Member

John Walker
Board Member

California Public Employees' Retirement System
Office of Audit Services
Attn: Beliz Chappuie
PO Box 942701
Sacramento CA 94229-2701

Dear Ms. Chappuie,

This is a response to your letter and the Draft Public Agency Review Report dated May 5, 2016.

Finding #1: The Agency did not have a pay schedule that met all of the Government Code and CCR requirements.

We understand this finding and the recommendations. We will work with our Board of Education and CalPERS Employer Account Management Division to identify and make necessary corrections.

Administration

Pamela Able
Superintendent

Craig Rydquist
Deputy Superintendent
Chief Human Resources Official

Virginia Johnson
Associate Superintendent
Educational Services

Julle A. Betschart
Associate Superintendent
Business Services
Chief Business Official

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

#2A: We disagree with this finding in part. The contract language for the Associate Superintendent does state that travel and expense were included in the salary. However, that contract language was incorrect. Travel and expense for the Associate Superintendent were not reported to CalPERS. Attached are the two travel/expense items from 13/14 that were processed through Accounts Payable as reimbursements separately from the salary processed by Payroll. The Associate Superintendent's contract language has been corrected as of December 2015.

#2B: We concur with this finding. We are currently working with CalPERS Employer Account Management Division to further identify and make the necessary corrections/adjustments.

Finding #3: The Agency did not report special compensation in accordance with the Government Code and CCR.

#3A: We agree with this finding. We are working with CalPERS Employer Account Management Division to identify and make necessary corrections.



Modesto City Schools
426 Locust Street
Modesto California
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#3 B: We disagree with this finding due to the following justification: (1) In compliance with PERL, the Labor (Collective Bargaining) agreement (CBA) specified the conditions of the special compensation payment as being a "...a one-time "off the salary schedule" 1 payment equal to one percent (1%) ..." (CSEA Chapter 007 CBA June 1, 2013-June 30, 2016). (2) In compliance with PERL, the "eligibility" was that the members of the similar group had to be employed as of July 1, 2013 and therefore the special comp was not available to be earned by the members throughout the 13/14 year. (3) In compliance to CCR 571 (a) "Off-Salary-Schedule Pay", was processed in addition to base salary paid in similar lump sum amounts. We pay normal compensation monthly in a lump sum amount for each month the compensation is earned. This special comp was designated through CBA to be paid in 1 lump sum amount in 1 payment and was paid as the normal compensation that month in a similar lump sum amount. (4) We believe this is in compliance with GC2063(c)3 because this type of one-time payment should be considered earned during the normal working hours of the month that the payment is processed because the CBA does not stipulate the month in 13/14 that this lump sum one-time payment is designated to be applied to nor was it available to members throughout that year.

#3C & D: We understand these findings. We are working with the bargaining unit through the negotiations process to amend contract language with regard to employer-provided uniforms. We will also work with CalPERS Employer Account Management Division to identify and make necessary corrections.

Finding #4: The Agency incorrectly reported member contributions.

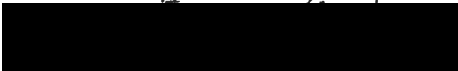
This finding is a result of a software issue that we have been working with the vendor to correct. We have already been in contact with CalPERS Employer Account Management Division to seeking guidance on submitting the corrections.

Observation: The Agency's records do not agree with my|CalPERS information.

We concur with this observation. The report supplied to auditors demonstrated data entry errors, missing termination dates and the initial report was pulled incorrectly by district staff. Measures have been taken to prevent this in the future and necessary corrections will be made immediately.

Thank you for your patience and assistance through this process. Please let me know if you have any questions or concerns.

Sincerely,


Michelle Price
Senior Director, Financial Services
209-550-3300 ext. 5409

Original signed by Michelle Price