

**Yuba City Unified School District
Teachers' Retirement Law Compliance Review
Membership and Compensation Reporting
Final Audit Report
December 31, 2012**

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

*Securing the Financial Future and Sustaining the Trust of
California's Educators*

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CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

Yuba City Unified School District Final Audit Report

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- Finding 1 – Yuba City Unified School District Incorrectly Reported (Coded) Retirement Incentive Payments to the Defined Benefit (DB) Program for 56 Retired Members.

Yuba City Unified School District
750 Palora Avenue
Yuba City, California 95991
School No. 51-035
Project No. SEA11-14

BACKGROUND

The Yuba City Unified School District provides educational services to nearly 13,000 students K-12. The 17 schools offer K-5, K-8, 6-8, and 9-12 configurations along with an alternative high school and independent study programs.¹

The District uses the Sutter County Superintendent of Schools Office (SCSOS) payroll system. The SCSOS collects member and associated contribution data from the District, formats payroll information with applicable assignment codes, pay codes, and member codes, and submits the monthly contribution report (F496) to CalSTRS.

AUDIT OBJECTIVES AND SCOPE

To protect the integrity of the State Teachers' Retirement System Defined Benefit Plan's fund, CalSTRS Audit Services, under the Teachers' Retirement Board (TRB) delegated authority, conducted a review of the District's membership and compensation reporting procedures. The objective of this review was to determine District compliance with the Teachers' Retirement Law (Education Code § 22000 et seq.) regarding eligible membership and creditable compensation reported to CalSTRS. Specifically, our objectives were to determine whether the District:

- Submitted accurate monthly reports and the required contribution amounts to CalSTRS.
- Accurately reported and remitted contribution for all qualified employees as CalSTRS members and offered right of election to non-members.
- Reported monthly reports and contribution data based on eligible members' creditable services and creditable compensation.

The audit period was July 1, 2008, through June 30, 2011; however, the audit period was expanded to include a review of the members retiring during the 2002-03 through 2011-12 school years for Finding 1. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Standards) promulgated by the Institute of Internal Auditors (IIA).

¹<http://www.ycusd.k12.ca.us/>, 9/21/11

METHODOLOGY

To achieve the objectives, we performed the following tasks:

- ✓ Worked with CalSTRS Member Account Services and Accounting's staff members to identify any outstanding issues regarding District and SCSOS's contribution reports.
- ✓ Utilizing CalSTRS corporate database, extracted and analyzed the reported members, non-members, earnings, compensations, and contribution data for the audit period. Identified potential risks in the areas of non-members, special compensations, and unusual increases in final compensation, etc.
- ✓ Selected sample individuals and pay periods based on the above risk assessment results.
- ✓ Interviewed appropriate District management and staff members to obtain an understanding of the District's personnel and payroll reporting processes as they relate to CalSTRS operations.
- ✓ Reviewed certificated employee bargaining agreements, employment contracts, salary and wage schedules, personnel files, and payroll records.
- ✓ Reviewed non-CalSTRS members reported to CalSTRS, and determined the eligibility of these employees for CalSTRS membership.
- ✓ Reconciled District reported pay rates and compensations for sampled active and retired members with the District's payroll registers, salary/wage schedules, employee contracts, and other relevant personnel files.
- ✓ Determined the validity of the District's supporting documentations of the final compensation, basic sick leave days, base days, and other pertinent retirement data for the sampled retired members.

SUMMARY RESULTS

Except for the observations noted in the Report of Audit Finding section, the District and SCSOS submitted monthly reports and required contribution amounts to CalSTRS during the audit period. The District reported member earnings and compensation data which were based on members' creditable services and creditable compensation.

We have not expressed an opinion related to the internal controls over the District's accounting and administrative operations.

REPORT OF AUDIT FINDING:

Finding 1 – Yuba City Unified School District Incorrectly Reported (Coded) Retirement Incentive Payments to the Defined Benefit (DB) Program for 56 Retired Members.

Finding 1 – Discussion:

Yuba City Unified School District (District) incorrectly reported (coded) retirement incentive payments as creditable compensation to the CalSTRS Defined Benefit (DB) Program for 56 retired members during the 2002-03 through 2008-09 school years. The District incorrectly coded the retirement incentive payments using Assignment Code 57 (full-time) and Contribution Code 6 (special compensation). This incorrect coding resulted in crediting employer and member contributions to the DB Program. The District should have reported these retirement incentive payments using Assignment Code 71 (special compensation to the Defined Benefit Supplement (DBS) Program) and Contribution Code 6.

The District's bargaining agreements during the 2002-03 through 2011-12 school years included the following two retirement incentive payment plans:

One Time Payment Plan:

The District's bargaining agreements state that unit members "... on the salary schedule, at the designated step for at least fourteen (14) consecutive years and who elect to retire will receive an additional one- time payment of \$1,750 upon retirement."

One Time Buy-Out Plan:

The District's bargaining agreements state that unit members will be eligible for the "... one time buy-out plan under the following conditions:

1. Unit members who are eligible must notify the District in writing between March 31 and May 15 of the calendar year of eligibility.
2. Unit members must have reached the age of 60 by June 30 of the calendar year of eligibility at which time retirement would take effect.
3. Only full-time unit members who are on paid status ... have 15 years of effective District services ...
4. For unit members who meet the conditions above, the District agrees to make a one-time payment of 25% of the unit member's last year's base salary to the unit member."

Based on our audit, the District correctly reported retirement incentive payments to the CalSTRS DBS Program during the 2009-10 through 2011-12 school years. However, the District incorrectly reported retirement incentive payments to the CalSTRS DB program during the 2002-03 through 2008-09 school years as identified in this finding. For retirement reporting purposes, the retirement incentive payments are not creditable to the DB Program for the following reasons:

1. The compensation was not payable to all persons within the same class of employees; thus, reporting it to the DB Program violates Education Code § 22119.2(c)(1).
2. The compensation was not consistent over the members' careers; thus, reporting them to the DB Program violates Education Code § 22119.2(f).
3. The compensation was a one-time payment; thus, reporting it to the DB Program violates Education Code § 22905(b)(3).

(Note: CalSTRS is not questioning the amount paid to District employees. CalSTRS has a fiduciary responsibility to ensure compensation reported to the DB program complies with the Teachers' Retirement Law.)

Finding 1 - Teacher's Retirement Law Requirements:

Education Code § 22119.2 (c) states in part, "'Creditable Compensation' does not mean and shall not include:

(1) Remuneration that is not payable in cash or is not payable to all persons who are in the same class."

Education Code § 22119.2(f) states in part, "This definition of 'creditable compensation' reflects sound principals that support the integrity of the retirement fund. Those principles include, but are not limited to, consistent treatment of compensation throughout a member's career, and consistent treatment of compensation among an entire class of employees, preventing adverse selection, and excluding form compensation earnable remuneration that is paid for the principal purpose of enhancing a member's benefit under the plan. The board [CalSTRS] shall determine the appropriate crediting of contributions between the Defined Benefit Program and the Defined Benefit Supplement Program according to these principles..."

Education Code § 22905(b)(3) states, "Member and employer contributions on a member's compensation under the following circumstances shall be credited to the member's Defined Supplement account: ... Compensation that is payable for a specified number of times as limited by law, a collective bargaining agreement, or an employment contract."

Finding 1 – Effect:

The incorrect reporting of the retirement incentive payments to the DB Program caused 54 of the 56 retired members' final compensation to be overstated. As a result, their retirement allowances were overstated by an approximate range of \$12 to \$992 per month.

The accumulated benefit overpayments to these retired members totaled approximately \$563,603 from the date of their retirement through November 30, 2012. Future benefit overpayments could total approximately \$817,810 by extrapolating these monthly benefit overpayments over the next ten years. The overpaid benefits to these retired members will continue to grow until the corrections to the members' accounts are made. Contributions of approximately \$17,782 will be transferred from

these members' DB accounts to their DBS accounts. Please see the Confidential Appendix for detailed information.

Finding 1 - Corrective Action Needed:

- The District must submit corrections to reverse out the 56 retired members' reported pay rates and earnings for the 2002-03 through 2008-09 school years and correctly report these transactions using Assignment Code 71, Contribution Code 6.
- The District must work with the SCSOS to make the corrections on the CalSTRS Form F496, "Report of Retirement Contributions." Please refer to the Confidential Appendix for specific adjustments needed. The District must make these corrections within 60 days of the final audit report date.

Education Code § 23008(a) states in part, "If more or less than the required contributions ... are paid to the system based on any payment of creditable compensation to a member, proper adjustments shall be made on a monthly report ... district superintendent ... who submitted the report, within 60 days after discovery or notification by the system and any refund shall be made to the member within the same time period by the employing agency."

- Concurrent with the release of the final audit to the District, CalSTRS will notify the affected retired member(s) of this required corrective action and the estimated impact on his/her benefit accounts.
- If the District fails to make the required corrections within 60 days, CalSTRS will adjust the affected member accounts. Once the adjustments to creditable compensation are correctly reported, CalSTRS will recalculate the members' retirement allowances using the correct final compensation and notify the retired members of the adjustments made to his/her benefits.
- Overpayments related to incorrectly reported compensation approximate \$563,603, as of November 30, 2012, will continue to increase until properly reported by the District, as instructed in this audit.
- CalSTRS will establish a receivable and collect overpayments from the members, former members, or beneficiaries pursuant to Education Code § 24616 and 24617.

Education Code § 24616 states in part, "Any overpayment made to or on behalf of any member, former member, or beneficiary, [...] shall be deducted from any subsequent benefit that may be payable [...], except as provided in Section 24616.5."

Education Code § 24617, subdivision (a) states in part, "To recover an amount overpaid, the corrected monthly allowance payable [...] may be reduced by no more than [five] 5 percent if the overpayment was due to error by the [...] school district."

- The District will pay to CalSTRS the difference between the overpayment and the actuarial present value of payments expected to be paid by the former members or beneficiaries.

Education Code § 24616.5 states, “If an employer reports erroneous information, the system shall calculate the actuarial present value of the expected payments from the member, the former member, or beneficiary pursuant to Sections 22008 and 24617. The employer shall pay the difference between the total amount of the overpayment and the calculation of the actuarial present value of expected payments.”

In other words, the District will be required to pay CalSTRS for benefit overpayments that CalSTRS has projected it will not collect from the member. This amount will be computed by the CalSTRS Accounting Division using actuarial tables.

Yuba City Unified School District

APPENDICES INDEX

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Appendix - A



YUBA CITY UNIFIED SCHOOL DISTRICT

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Nancy H. Aaberg, Superintendent

GOVERNING BOARD

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November 27, 2012

Tom Gong, Audit Manager
CalSTRS Audit Services
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Sacramento, CA 95851-0275

RE: Response to Draft Audit Report of Yuba City Unified School District
Project No. # SEA11-14

Mr. Gong:

On November 14, 2012, the Yuba City Unified School District (YCUSD) received the CalSTRS Draft Audit Report. Below is the District's written response to the report.

Finding 1 - YCUSD incorrectly reported (code) retirement incentive payments as creditable compensation to the CalSTRS Defined Benefit (DB) Program for 56 retired members during the 2002-03 through 2008-09 schools years.

The District agrees with this audit finding. In order to correct this finding, Yuba City Unified School District worked with Sutter County Office of Education (SCOE) to correct the coding. SCOE made the corrections through a supplemental file to CalSTRS on November 20, 2012 reversing the 56 retired members reported pay rates and earnings from 2002-03 through 2008-09 school years and properly reported these transactions using the Assignment Code 71, Contribution Code 6.

Yuba City Unified has made the proper adjustments to the members' creditable compensation and is asking CalSTRS to promptly recalculate the retired members' retirement allowances using the correct final compensation and notify the retired members of the adjustments made to his/her benefits.

Concerns / Questions Regarding the Draft Audit Report

The District has concerns regarding how the Estimated Monthly Allowance Overpay was calculated by CalSTRS. The District calculated that the \$1,750 Bonus at 100% would be no more than \$145.00 monthly overpayment. There are several members who exceed this amount. The District is asking CalSTRS to review all 56 members Monthly Allowance Overpay calculations thoroughly before completing the Final Audit Report.

Sincerely,


Nancy Aaberg
YCUSD Superintendent

Educating Today's Students To Succeed In Tomorrow's World

Appendix - A

CalSTRS Audit Services Evaluation of District's Response Dated November 27, 2012

Finding 1:

District: The District agreed with the finding and worked with the Sutter County Office of Education to make the corrections for the 56 retired members. The District has concerns regarding how the estimated monthly allowance overpayment was calculated by CalSTRS.

Audit Services Evaluation of District's Response: CalSTRS accepts the District's response and included additional explanation and footnotes in the confidential section of the final report to address the District concerns.