

Employer Direct Reporting: Effective date

The regulations will be effective for districts that are currently approved as direct reports and to those that apply or are in the process of applying to become direct reports to the Defined Benefit Program on or after January 1, 2016.

The effective date of becoming a new direct report will coincide with the beginning of the school year (July 1).

Prerequisites to approval

- (a) An applicant to become a direct report shall be in compliance with all of the following requirements:
- (1) The district has submitted the documentation required under "*Documentation required.*"
 - (2) The district has demonstrated the ability to successfully transmit the following files to CalSTRS:
 - (A) An encrypted sample file formatted according to the F496 file format specifications.
 - (B) An encrypted file containing member information related to accounts receivable to identify that a member is set up with automatic deduction to purchase service time through the employer.
 - (C) An encrypted file containing physical address details associated with the member.
 - (3) If the district was previously terminated as a direct report, more than 10 fiscal years have elapsed since the effective date of the termination.
 - (4) In the 36 months preceding its application to become a direct report, the district had an audit conducted by CalSTRS that demonstrated full compliance with reporting the following consistent with the Teachers' Retirement Law:
 - (A) Mandatory membership.
 - (B) One-time or limited-term payments reported to the Defined Benefit Supplement Program.
 - (C) Outgrowth activities as creditable service.
 - (D) Information regarding the compensation to be paid to employees, including, but not limited to, employment contracts, written agreements, salary schedules, and board minutes.
 - (5) A review conducted by CalSTRS demonstrates sustained compliance with all of the following over the 12-month period preceding the district's application:
 - (A) Responding to CalSTRS' requests for adjustments within 60 days.
 - (B) Providing acceptable annotations to employer-approved edits in the F496 File format electronically in an encrypted format provided by CalSTRS.
 - (C) Reporting full-time minimum standards consistent with a written agreement with an exclusive representative.
 - (D) Providing CalSTRS with information regarding the compensation to be paid to employees within 30 days of a request by CalSTRS.
- (b) The board may deny an application to become a direct report if it finds any of the following:
- (1) The district has current outstanding or unresolved audit findings from CalSTRS at any point during the application process.

- (2) There are current outstanding amounts receivable to CalSTRS attributable to the district at any point during the application process.
- (3) If the district was previously rejected by CalSTRS from entry as a direct report due to an audit or review finding, and the rejection occurred within the previous five fiscal years.

Documentation required

- (a) An applicant to become a direct report shall submit the following documentation:
 - (1) If contributions required to be paid by a member are picked up for the sole purpose of deferring taxes as authorized by Section 414(h)(2) of the Internal Revenue Code of 1986 (26 U.S.C.A Sec 414(h)(2)) and Section 17501 of the Revenue and Taxation Code, a resolution adopted by the district's governing board certifying its intent to pick up member contributions in compliance with those provisions and the Teachers' Retirement Law.
 - (2) A resolution adopted by the district's governing board resolving to become a direct report to CalSTRS and certifying each of the following.
 - (A) "[District] hereby elects to become a direct report to the California State Teachers' Retirement System, effective on July 1, [effective year]."
 - (B) "[District] has a payroll system independent of the county."
 - (C) The district is fiscally accountable, fiscally independent, or both, as demonstrated by including the relevant statements from either of the following subdivisions:
 - (i) For a school district: "[District] is [fiscally accountable / fiscally independent/ both fiscally accountable and fiscally independent] as defined in [section 42647/ section 42650/ sections 42647 and 42650] of the Education Code."
 - (ii) For a community college district: "[District] is [fiscally accountable / fiscally independent/ both fiscally accountable and fiscally independent] as defined in [section 85266/ section 85266.5/ sections 85266 and 85266.5] of the Education Code."
 - (D) "[District] has the ability to be in full compliance with the F496 File Specifications."
 - (E) "[District] is responsible for submitting contribution data and remitting contributions in accordance with the Teachers' Retirement Law."
 - (F) "[District] is responsible for submitting contribution data and remitting contributions for all adjustments to contributions that relate to service performed prior to the effective date of the direct reporting relationship as requested by the system."
 - (G) "[District] is responsible for payment of any penalty assessments for data submitted as a direct report on or after the effective date of the direct reporting relationship."
 - (H) "[District] is responsible for submitting all contribution data and remitting all contributions on and after the effective date of becoming a direct report."
 - (I) "For the last five fiscal years, [district] has been issued an unqualified opinion on its annual financial audit, and the management letter does not contain any material weaknesses or misstatements or significant deficiencies with its internal controls."
 - (J) The district has maintained a status of acceptable standing with the most current accrediting body by affirming the relevant statement from either of the following subdivisions:

- (i) For a school district: “[District] has not been on probationary accreditation status nor had its accreditation status withheld by the most current accreditation body sanctioned by the California Department of Education in the last five fiscal years.”
 - (ii) For a community college district: “[District] has not been ordered to show cause or been subject to the equivalent strictest sanctions applied from the most current accreditation body sanctioned by the Board of Governors of the California Community Colleges in the last five fiscal years.”
- (K) “[District] shall notify the system within three business days if its payroll operations are no longer independent of the county or if its fiscally accountable status or fiscal independence is revoked. If any of these occur, the district shall cease submitting contribution data and remitting contributions to the system directly and shall resume submitting contribution data and remitting contributions through [county] effective on the date following revocation.”
- (L) The relevant statement from either of the following subdivisions:
- (i) For a school district: “[District] shall notify the system within three business days if it is placed on one-year probationary accreditation status or has its accreditation status withheld or an equivalent status by the accrediting body.”
 - (ii) For a community college district, “[District] shall notify the system within three business days if it is ordered to show cause or is placed on an equivalent status or sanction by the accrediting body.”
- (M) “If [district] is terminated as a direct report, [county] will be responsible for submitting or remitting any missed reports, adjustments, contributions, penalties, and interest associated with the time period that the district was a direct report.”
- (N) “[District] may terminate the direct reporting relationship only when the system, the district, and [county] have agreed to the employer terminating the relationship.”
- (3) A resolution adopted by the county governing authority authorizing the district to become a direct report to the system and certifying each of the following:
- (A) “On [date district’s governing board approved resolution], [district] elected to become a direct report to the system effective on July 1, [effective year].”
 - (B) “[District] meets the eligibility requirements of the system, as specified on a resolution adopted by the district’s governing board to become a direct report pursuant to paragraph (2) or subdivision (a) of Section 27703 of the California Code of Regulations.”
 - (C) “[County superintendent of schools] is not responsible for submitting contribution data and remitting contributions, including adjustments to contribution data and contributions made prior to the effective date of [district] becoming a direct report.”
 - (D) “[County superintendent of schools] is not responsible for any penalty or interest assessments for data submitted by [district] as a direct report on or after the effective date of becoming a direct report for the duration of the direct reporting relationship.”
 - (E) “[County superintendent of schools] shall notify the system within three business days of revocation should the district’s fiscally accountable status or fiscal independence be revoked, and shall resume submitting contribution data and remittance on behalf of the district on the revocation effective date.”

- (F) "If [district] is terminated as a direct report, [county superintendent of schools] is responsible for submitting and remitting all missed reports, adjustments, contributions, penalties, and interest to the system."
- (b) Failure to submit the required documentation shall result in a denial of approval to become a direct report.

Termination of direct reporting relationship.

- (a) The system may initiate termination of a direct reporting relationship at any time if any of the criteria or requirements for approval or responsibilities as a direct report are not met.
- (b) The system may terminate the direct reporting relationship if the district does not respond, through appeal or compliance, to an audit finding by the system within 60 days.
- (c) The district may voluntarily terminate the direct reporting relationship only when the system, the district's governing body, and the county governing authority have mutually agreed to terminate the relationship, as evidenced by all of the following.
- (1) The district's governing body has certified by a resolution its intent to terminate the direct reporting relationship.
 - (2) The county governing authority has certified by a resolution that the county is responsible for submitting and remitting any missed reports, adjustments, contributions, penalties, and interest associated with the time period that the district was a direct report as well as all future reporting.
 - (3) The system has accepted the submitted resolutions and the Deputy Chief Executive Officer of CalSTRS approves the transition from the district to the county.

Review of termination of direct reporting relationship.

- (a) A district may request a review, in writing, the decision by CalSTRS to terminate the direct reporting relationship, within 30 days of receipt of a relationship termination letter, to the Deputy Chief Executive Officer of CalSTRS. The resulting decision after such a review shall be final.