

COMMON AUDIT FINDINGS

The purpose of this employer information circular is to inform County Offices of Education, School Districts, Community Colleges and Charter Schools of common employer audit findings and provide guidance to avoid these findings in the future.

CalSTRS conducts on-site field audits of our employers to ensure the integrity and solvency of the CalSTRS retirement program. These audits meet requirements for compliance oversight, as well as provide important training and program improvement information for our employers. Historically, the audits have included an examination of a number of different areas, such as:

- Accuracy of reported pay rates and earnings.
- Correct usage of payroll reporting codes.
- Extra-duty/extra assignment earnings incorrectly reported.
- Employment of CalSTRS retired members.
- Reporting of unused basic and excess sick leave for additional service credit at retirement.
- Membership not timely established after permissive election.

Following are some of the most common audit findings identified by CalSTRS Audit Services as of December 31, 2014. Please note that the findings are not in any order of importance.

Special Compensation Directly Reportable to the Defined Benefit Supplement Program (DBS) is Incorrectly Reported to the Defined Benefit Program (DB)

Discussion:

Special Compensation (remuneration that is paid in addition to salary) that is paid a limited number of times, such as retirement incentives, retention bonuses, and off schedule pay, which is not eligible for service credit should be reported directly to the member's DBS account. A common audit finding is this type of special compensation being reported to the member's DB account instead of the DBS account. As a result, a retired member will be overpaid service retirement benefit payments from the retirement date to the date the corrections are made by the employer; will be required to repay the retirement benefit overpayments to CalSTRS; and, their DBS benefit will be underpaid until the corrections are applied.

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Guidance:

- CalSTRS 2% at 60 Members:
Special compensation that is paid a limited number of times is creditable to the DBS Program and is reported using Contribution Code 6 and Assignment Code 71 for all employers.
- CalSTRS 2% at 62 Members:
Service Performed After January 1, 2013: Special compensation that is paid a limited number of times or is not paid every pay period that the member performs service is not creditable to the State Teachers' Retirement Plan and therefore is not reportable to CalSTRS.

Resources Available to You:

- ✓ Relevant Education Code sections: 22115(a), 22119.2, 22119.3 and 22905(b).
- ✓ Relevant California Code of Regulations: Title 5, Division 3, Chapter 2, sections 27200, et seq. Also known as the Creditable Compensation Regulations which became effective January 1, 2015.
- ✓ Contact your Member Account Services representative to verify whether creditable service earnings are considered creditable to DBS only.

Extra-Duty/Extra Assignment Earnings Incorrectly Reported as Special Compensation

Discussion:

Creditable service for extra-duty or extra assignment may be eligible for service credit in addition to the service credit earned for a full-time or part-time position. Contributions will be reported to the DB Program, but if a member's creditable service exceeds one full year within a fiscal year, the contributions associated with service in excess of one year will be credited to the member's DBS account at the end of the fiscal year. Extra-duty or extra assignment earnings are not considered special compensation. Extra-duty or additional assignment earnings that are reported as special compensation will result in inaccurate accrual of service credit and crediting of contributions to the DBS Program. These inaccuracies will persist until such time as the employer makes the corrections. Once corrections are made, the inaccurate reporting will result in a reduction in a member's monthly allowance and may also result in the establishment of a receivable, further reducing the member's allowance.

Guidance:

- CalSTRS 2% at 60 Members and 2% at 62 Members:
Creditable service performed by a member must be reported as creditable compensation to the member's DB account using Contribution Code 1 and the respective Assignment Code, such as 55 for K-12, 58 for Community Colleges, and 45 for year round schools.

Resources Available to You:

- ✓ Relevant Education Code sections: 22115(a), 22119.2, 22138.5(a), and 22703(b).
- ✓ Relevant California Code of Regulations sections: 27200, et seq. Also known as the Creditable Compensation Regulations, which became effective January 1, 2015.
- ✓ Contact your Member Account Services representative to verify if extra duty earnings are considered part of the full-time equivalent workload or separately reportable extra duty earnings.

Unused Sick Leave Data Incorrectly Reported on the Express Benefit Report

Discussion:

The CalSTRS *Express Benefit Report* (SR 0554E) form is the form you must submit to CalSTRS at the time of a member's retirement that provides employment information, such as accumulated unused sick leave days, that is needed to calculate a member's retirement benefit. Common audit findings for sick leave data incorrectly reported include:

- 1) Number of accumulated unused sick leave days is incorrect.

When unused sick leave days are overstated; the member will receive additional service credit and their retirement benefit will be inflated and overpaid. The member will then be required to repay the retirement benefit overpayments back to CalSTRS. When unused sick leave days are understated; the member will not receive the full retirement benefit for which they were entitled until the understatement is corrected. The member may be entitled to an underpayment.

- 2) Number of contract base days is incorrect.

When the contract base days are understated the conversion of the unused sick leave to service credit will create an inflated member retirement benefit and be overpaid. The member will then be required to repay the retirement benefit overpayments back to CalSTRS. When the contract base days are overstated, the conversion of the unused sick leave to service credit will create an insufficient retirement benefit until the employer corrects the data. The member may be entitled to an underpayment.

- 3) Unused excess sick leave combined with unused basic sick leave.

When unused excess sick leave is reported as unused basic sick leave, the member's retirement benefit is not affected. However, the employer is not reimbursing CalSTRS for the actuarially determined present value cost of the excess sick leave. This results in CalSTRS providing a portion of a benefit that has not been funded. CalSTRS will bill the district for the present value of the impact of unused excess sick days on the member's benefit.

Guidance:

Education Code section 22170.5 provides that “basic sick leave day” means the equivalent of one day’s paid leave of absence per pay period due to illness or injury. It further provides that “excess sick leave days” means the day or total number of days granted by an employer for paid leave of absence due to illness or injury in excess of basic sick leave.

The accumulated unused sick leave that the member was entitled to on the final day of employment must be reported in days, not hours.

To determine the number of excess sick leave days to which a member is entitled when he or she retires, the employer shall deduct the days of sick leave used by the member from the member’s accumulated and unused sick leave balance according to the following method:

- 1) Sick leave usage shall first be deducted from the accumulated and unused sick leave balance existing on July 1, 1986.
- 2) Sick leave usage shall next be deducted from basic sick leave days granted to the member by an employer after June 30, 1986.
- 3) Sick leave usage shall then be deducted from any excess sick leave days granted to the member by an employer after June 30, 1986.

The *Express Benefit Report* (SR0554E) form is due to CalSTRS within 30 days of the retirement date or the date CalSTRS receives the member’s retirement application, whichever is later. To correct any data previously reported on the *Express Benefit Report* (SR0554E), use the *Employment Termination or Sick Leave Data Correction* (SR0559) form. Both the *Express Benefit Report* (SR0554E) and the *Employment Termination or Sick Leave Data Correction* (SR0559) forms are available under Reference Items on the Secure Employer Website (SEW).

Resources Available to You:

- ✓ Relevant Education Code sections: 22170.5, 22717, 22718, and 22724.
- ✓ Refer to Employer Information Circular EIC03-6 Volume 19, Issue 6, dated May 22, 2003, for further clarification. Contact CalSTRS Service Retirement at ExpressBenReport@CalSTRS.com for assistance.

Postretirement Earnings Incorrectly Reported for CalSTRS Retired Members

Discussion:

Upon retaining the services of a CalSTRS retired member, whether as an employee of the district, as an independent contractor to the district, or as an employee of a third party, the employer must notify the retired member of all earnings limits and also the retirement incentive employment restrictions, if applicable, maintain accurate records of the retired member’s earnings, and report those earnings monthly to CalSTRS. If the member’s earnings exceed the postretirement

earnings limit, the member's allowance will be reduced dollar-for-dollar from the gross monthly allowance until the excess compensation has been paid in full; but, the reduction will be no more than the amount of the annual allowance.

Guidance:

The employer must report all postretirement earnings for CalSTRS retired members who perform retired member activities as employees, independent contractors, or employees of a third party, regardless of the method of payment or the fund from which the payments are made.

All compensation paid by a third party to a CalSTRS retired member for the performance of retired member activities must be reported by the school district, county office of education or community college district to CalSTRS, and that compensation counts towards the postretirement earnings limit. It is the responsibility of the school district, county office of education or community college district to know when a CalSTRS retired member has been hired as an employee of a third party to perform retired member activities.

All postretirement earnings must be reported with Member Code 2 and Assignment Code 61. The employer must also inform each retired member annually of the current CalSTRS postretirement earnings limitation.

Resources Available to You:

- ✓ Relevant Education Code sections: 22164.5, 22461 and 24214 and 24214.5.
- ✓ Refer to Employer Directive 2015-01 (Amended). Contact CalSTRS Service Retirement at PostRetirement@calstrs.com for assistance.
- ✓ Contact your Member Account Services representative regarding proper coding of postretirement earnings.

Membership Not Timely Established After Permissive Election

Discussion:

Any person employed to perform creditable service that is excluded from mandatory membership may elect to become a CalSTRS DB member at any time. When a person elects CalSTRS DB membership, employers must immediately establish that person as a member in CalSTRS system, and prior to the submission of contributions. When membership is not established timely, contributions are not remitted and service credit is not accrued. This results in inaccurate accrual of service credit for the member.

Employers must make retirement system eligibility information available to all persons employed to perform creditable service subject to coverage under the DB Program within 30 days of the date of hire. If it is determined that an employer has failed to inform employees within this timeframe, the employer will be liable to CalSTRS for all employer and member

contributions and interest from the date of hire, in addition to CalSTRS administrative and audit costs.

Guidance:

All contributions must be reported as Member Code 1 from the date the employee elected membership and going forward. Employers should also submit the *Permissive Membership* (ES0350) election form to CalSTRS prior to reporting compensation. Employers should verify membership status using the Remote Employer Access Program or Match File in the Secure Employer Website (SEW) prior to submitting data for a new employee.

Resources Available to You:

- ✓ Relevant Education Code sections 22119.5, 22146, 22455.5, 22500-22504, 22515, 22901, 22905, and 23000.