CALIFORNIA STATE PERSONNEL BOARD

COMPLIANCE REVIEW REPORT

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Compliance Review Unit
State Personnel Board
August 31, 2018

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INTRODUCTION

Established by the California Constitution, the State Personnel Board (the SPB or Board) is charged with enforcing and administering the civil service statutes, prescribing probationary periods and classifications, adopting regulations, and reviewing disciplinary actions and merit-related appeals. The SPB oversees the merit-based recruitment and selection process for the hiring of over 200,000 state employees. These employees provide critical services to the people of California, including but not limited to, protecting life and property, managing emergency operations, providing education, promoting the public health, and preserving the environment. The SPB provides direction to departments through the Board's decisions, rules, policies, and consultation.

Pursuant to Government Code section 18661, the SPB's Compliance Review Unit (CRU) conducts compliance reviews of appointing authorities' personnel practices in five areas: examinations, appointments, equal employment opportunity (EEO), personal services contracts (PSC's), and mandated training, to ensure compliance with civil service laws and board regulations. The purpose of these reviews is to ensure state agencies are in compliance with merit related laws, rules, and policies and to identify and share best practices identified during the reviews.

Effective July 1, 2012, the Governor's Reorganization Plan Number One (GRP1) of 2011 consolidated all of the functions of the Department of Personnel Administration and the merit-related operational functions of the State Personnel Board (SPB) into the California Department of Human Resources (CalHR). Pursuant to Government Code section 18502(c), CalHR and SPB may "delegate, share, or transfer between them responsibilities for programs within their respective jurisdictions pursuant to an agreement." CalHR and SPB, by mutual agreement, expanded the scope of program areas to be audited to include more operational practices that are delegated to departments and for which CalHR provides policy direction. Many of these delegated practices are cost drivers to the state and were not being monitored on a statewide basis.

As such, SPB also conducts compliance reviews of appointing authorities' personnel practices to ensure that state departments are appropriately managing the following non-merit-related personnel functions: compensation and pay, leave, and policy and processes. These reviews will help to avoid and prevent potential costly litigation related to improper personnel practices, and deter waste, fraud and abuse.

The SPB conducts these reviews on a three-year cycle.

The CRU may also conduct special investigations in response to a specific request or when the SPB obtains information suggesting a potential merit-related violation.

EXECUTIVE SUMMARY

The CRU conducted a routine compliance review of the California State Teachers' Retirement System (CalSTRS) personnel practices in the areas of examinations, appointments, EEO, PSC's, mandated training, compensation and pay, leave, and policy and processes[1]. The following table summarizes the compliance review findings.

Area	Finding
Examinations	Equal Employment Opportunity Questionnaires Were Not Separated from All Applications
Appointments	Appointment Documentation Was Not Kept for the Appropriate Amount of Time
Appointments	Equal Employment Opportunity Questionnaires Were Not Separated from All Applications
Equal Employment Opportunity	Disability Advisory Committee Was Not Active
Personal Services Contracts	Sufficient Justification Was Not Provided for All Personal Services Contracts
Mandated Training	Supervisory Training Was Not Provided for All Supervisors
Mandated Training	Ethics Training Was Not Provided for All Filers
Mandated Training	Sexual Harassment Training Was Not Provided for All Supervisors
Compensation and Pay	Salary Determinations Complied with Civil Service Laws, Board Rules, and CalHR Policies and Guidelines
Compensation and Pay	Alternate Range Movements Complied with Civil Service Laws, Board Rules, and CalHR Policies and Guidelines
Compensation and Pay	Hiring Above Minimum Requests Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Compensation and Pay	Red Circle Rate Complied with Civil Service Laws, Board Rules, and CalHR Policies and Guidelines

[1] Timeframes of the compliance review varied depending on the area of review. Please refer to each section for specific compliance review timeframes.

Area	Finding
Compensation and Pay	Arduous Pay Authorization Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Compensation and Pay	Pay Differentials Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Compensation and Pay	Out of Class Assignments Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Leave	Administrative Time Off Authorizations Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Leave	Leave Activity and Correction Certification Forms Were Completed For All Leave Records
Leave	Leave Reduction Plans Were Not Provided to All Employees Whose Leave Balances Were Over the CAP
Leave	Incorrect Application of 715 Transaction
Policy	Nepotism Policy Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Policy	Workers' Compensation Process Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines
Policy	Performance Appraisals Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

A color-coded system is used to identify the severity of the violations as follows:

- Red = Very Serious
- Orange = Serious
- Yellow = Non-serious or Technical
- Green = In Compliance

BACKGROUND

The CalSTRS was established by law in 1913 to provide retirement benefits to California's public school educators from prekindergarten through community college.

Today, CalSTRS is the largest educator-only pension fund in the world, and the second largest pension fund in the U.S. The CalSTRS provides retirement, disability, and survivor benefits for full-time and part-time California public school educators through a hybrid retirement system consisting of its Defined Benefit, Defined Benefit Supplement,

and Cash Balance Benefit programs, and a voluntary defined contribution plan called CalSTRS Pension2.

The market value of the CalSTRS Investment Portfolio was approximately $215.3 billion as of September 30, 2017. The mission of CalSTRS is "Securing the financial future and sustaining the trust of California's educators."

SCOPE AND METHODOLOGY

The scope of the compliance review was limited to reviewing the CalSTRS' examinations, appointments, EEO program, PSC's, mandated training, compensation and pay, leave, and policy and processes[2] when applicable. The primary objective of the review was to determine if CalSTRS' personnel practices, policies, and procedures complied with State civil service laws and board regulations, Bargaining Unit Agreements, CalHR policies and guidelines, CalHR delegation agreements, and to recommend corrective action where deficiencies were identified.

A cross-section of the CalSTRS' examinations were selected for review to ensure that samples of various examination types, classifications, and levels were reviewed. The CRU examined the documentation that the CalSTRS provided, which generally included examination plans, examination bulletins, job analyses, and scoring results. The CalSTRS did not conduct any permanent withhold actions during the compliance review period.

A cross-section of the CalSTRS' appointments were selected for review to ensure that samples of various appointment types, classifications, and levels were reviewed. The CRU examined the documentation that the CalSTRS provided, which generally included Notice of Personnel Action (NOPA) forms, RPA's, vacancy postings, application screening criteria, hiring interview rating criteria, certification lists, transfer movement worksheets, employment history records, correspondence, and probation reports. The CalSTRS did not conduct any additional appointments during the compliance review period. Additionally, the CalSTRS did not make any additional appointments during the compliance review period.

The CalSTRS' appointments were also selected for review to ensure the CalSTRS applied salary regulations accurately and correctly processed employee's compensation and pay. The CRU examined the documentation that the CalSTRS provided, which

[2] Timeframes of the compliance review varied depending on the area of review. Please refer to each section for specific compliance review timeframes.

generally included requests for employees' employment and pay histories and any other relevant documentation such as certifications, degrees, and/or appointees' application. Additionally, the CRU reviewed specific documentation for the following personnel functions related to compensation and pay: hiring above minimum (HAM) requests, red circle rate requests, out-of-class assignments, monthly pay differentials, and arduous pay. During the compliance review period, the CalSTRS did not issue or authorize bilingual pay.

The review of the CalSTRS' EEO program included examining written EEO policies and procedures; the EEO Officer's role, duties, and reporting relationship; the internal discrimination complaint process; the upward mobility program; the reasonable accommodation program; the discrimination complaint process; and the Disability Advisory Committee (DAC).

The CalSTRS' PSC's were also reviewed. It was beyond the scope to make conclusions as to whether the CalSTRS' justifications for the contracts were legally sufficient. The review was limited to whether the CalSTRS' practices, policies, and procedures relative to PSC's complied with procedural requirements.

The CalSTRS' mandated training program was reviewed to ensure all employees required to file statements of economic interest were provided ethics training, and all supervisors were provided supervisory and sexual harassment prevention training within statutory timelines.

The CRU also identified the CalSTRS' employees whose current annual leave, or vacation leave credits, exceeded established limits. The CRU reviewed a cross-section of these identified employees to ensure that employees who have significant "over-the-cap" leave balances have a leave reduction plan in place and are actively reducing hours. Additionally, the CRU asked the CalSTRS to provide a copy of their leave reduction policy.

The CRU reviewed the CalSTRS' Leave Activity and Correction certification forms to verify that the CalSTRS created a monthly internal audit process to verify all leave input into any leave accounting system was keyed accurately and timely. The CRU selected a small cross-section of the CalSTRS units in order to ensure they maintained accurate and timely leave accounting records. Part of this review also examined a cross-section of the CalSTRS' employee's employment and pay history, state service records, and leave accrual histories to ensure employees with non-qualifying pay periods did not receive vacation/sick leave and/or annual leave accruals or state service credit. The

CRU reviewed a selection of the CalSTRS' employees who used Administrative Time Off (ATO) in order to ensure that ATO was appropriately administered.

Additionally, the CRU reviewed the CalSTRS' policies and processes concerning nepotism, workers' compensation, and performance appraisals. The review was limited to whether the CalSTRS' policies and processes adhered to procedural requirements.

On August 6, 2018, an exit conference was held with the CalSTRS to explain and discuss the CRU's initial findings and recommendations. The CRU received and carefully reviewed the CalSTRS' written response on August 24, 2018, which is attached to this final compliance review report.

FINDINGS AND RECOMMENDATIONS

Examinations

Examinations to establish an eligible list must be competitive and of such character as fairly to test and determine the qualifications, fitness, and ability of competitors to perform the duties of the class of position for which he or she seeks appointment. (Gov. Code, § 18930.) Examinations may be assembled or unassembled, written or oral, or in the form of a demonstration of skills, or any combination of those tests. (*Ibid*.) The Board establishes minimum qualifications for determining the fitness and qualifications of employees for each class of position and for applicants for examinations. (Gov. Code, § 18931.) Within a reasonable time before the scheduled date for the examination, the designated appointing power shall announce or advertise the examination for the establishment of eligible lists. (Gov. Code, § 18933, subd. (a).) the advertisement shall contain such information as the date and place of the examination and the nature of the minimum qualifications. (*Ibid*.) Every applicant for examination shall file an application in the office of the department or a designated appointing power as directed by the examination announcement. (Gov. Code, § 18934.) Generally, the final earned rating of each person competing in any examination is to be determined by the weighted average of the earned ratings on all phases of the examination. (Gov. Code, § 18936.) Each competitor shall be notified in writing of the results of the examination when the employment list resulting from the examination is established. (Gov. Code, § 18938.5.)

During the period under review, July 1, 2016 to March 31, 2017, the CalSTRS conducted nine examinations. The CRU reviewed seven of those examinations, which are listed below:

Classification	Exam Type	Exam Components	Final File Date	No. of Apps
Chief Executive Assignment (CEA), Director of Enterprise Compliance	CEA	Statement of Qualifications (SOQ)[3]	6/6/2017	6
CEA, Director of Governmental Relations	CEA	SOQ	8/1/2016	10
CEA, Public Affairs Executive Officer	CEA	SOQ	9/19/2016	16
CEA, Director, Benefits and Services Business Transformation	CEA	SOQ	7/19/2016	6
CEA, Senior Investment Accounting Manager	CEA	SOQ	9/28/2016	8
Senior Pension Program Representative	Departmental Promotional	Education and Experience [4]	Continuous	11
Pension Program Representative	Open - Statewide	Written[5]	6/24/2016	96

FINDING NO. 1 – Equal Employment Opportunity Questionnaires Were Not Separated From All Applications

Summary: Out of seven examinations reviewed, one examination included applications where EEO questionnaires were not separated from the STD 678 employment application. Specifically, nine of the 153 applications reviewed included EEO questionnaires that were not separated from the STD 678 employment application.

[3] In a statement of qualifications (SOQ's) examination, applicants submit a written summary of their qualifications and experience related to a published list of desired qualifications. Raters, typically subject matter experts, evaluate the responses according to a predetermined rating scale designed to assess their ability to perform in a job classification, assign scores and rank the competitors in a list.

[4] In an education and experience examination, one or more raters reviews the applicants' Standard 678 application forms, and scores and ranks them according to a predetermined rating scale that may include years of relevant higher education, professional licenses or certifications, and/or years of relevant work experience.

[5] A written examination is a testing procedure in which candidates' job-related knowledge and skills are assessed through the use of a variety of item formats. Written examinations are either objectively scored or subjectively scored.

Criteria: Government Code section 19704 makes it unlawful for a hiring department to require or permit any notation or entry to be made on any application indicating or in any way suggesting or pertaining to any protected category listed in Government Code section 12940, subdivision (a) (e.g., a person's race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status). Applicants for employment in state civil service are asked to voluntarily provide ethnic data about themselves where such data is determined by the CalHR to be necessary to an assessment of the ethnic and sex fairness of the selection process and to the planning and monitoring of affirmative action efforts. (Gov. Code, § 19705.) The EEO questionnaire of the state application form (STD 678) states, "This questionnaire will be separated from the application prior to the examination and will not be used in any employment decisions."

Severity: Very Serious. The applicants' protected classes were visible, subjecting the agency to potential liability.

Cause: The CalSTRS states that although examination applications are not utilized to make hiring decisions, the analyst processing a written exam did not remove EEO questionnaires from nine examination applications.

Action: It is recommended that within 60 days of the Executive Officer's approval of these findings and recommendations, the CalSTRS submit to the CRU a written corrective action plan that the department will implement to ensure the EEO questionnaires are separated from all applications. Copies of any relevant documentation should be included with the plan.

Appointments

In all cases not excepted or exempted by Article VII of the California Constitution, the appointing power must fill positions by appointment, including cases of transfers, reinstatements, promotions, and demotions in strict accordance with the Civil Service Act and Board rules. (Gov. Code, § 19050.) Appointments made from eligible lists, by

way of transfer, or by way of reinstatement, must be made on the basis of merit and fitness, which requires consideration of each individual's job-related qualifications for a position, including his or her knowledge, skills, abilities, experience, and physical and mental fitness. (Cal. Code Regs., tit. 2, § 250, subd. (a).)

During the period under review, July 1, 2016 to March 31, 2017 the CalSTRS made 358 appointments. The CRU reviewed 55 of those appointments, which are listed below:

Classification	Appointment Type	Tenure	Time Base	No. of Appts
Accounting Administrator II	Certification List	Permanent	Full Time	1
Accounting Analyst	Certification List	Permanent	Full Time	1
Administrative Assistant I	Certification List	Permanent	Full Time	2
Assistant Information Systems Analyst	Certification List	Permanent	Full Time	2
Associate Governmental Program Analyst	Certification List	Permanent	Full Time	2
Associate Pension Program Analyst	Certification List	Permanent	Full Time	3
Associate Personnel Analyst	Certification List	Permanent	Full Time	1
Associate Portfolio Manager, State Teachers' Retirement System	Certification List	Permanent	Full Time	2
Attorney V	Certification List	Permanent	Full Time	1
Financial Accountant I	Certification List	Permanent	Full Time	1
Office Technician (Typing)	Certification List	Permanent	Full Time	2
Pension Program Analyst	Certification List	Permanent	Full Time	5
Pension Program Manager I	Certification List	Permanent	Full Time	2
Staff Information Systems Analyst (Specialist)	Certification List	Permanent	Full Time	1
Staff Program Analyst	Certification List	Permanent	Full Time	1
Staff Services Analyst	Certification List	Permanent	Full Time	2
Staff Services Manager I	Certification List	Permanent	Full Time	2
Staff Services Manager II	Certification List	Permanent	Full Time	1
Systems Software Specialist III	Certification List	Permanent	Full Time	1

Associate Management Auditor	Mandatory Reinstatement	Permanent	Full Time	1
Associate Pension Program Analyst	Mandatory Reinstatement	Permanent	Full Time	1
Associate Portfolio Manager, State Teachers' Retirement System	Mandatory Reinstatement	Permanent	Full Time	1
Pension Program Analyst	Mandatory Reinstatement	Permanent	Full Time	1
Pension Program Manager I	Mandatory Reinstatement	Permanent	Full Time	1
Personnel Specialist	Mandatory Reinstatement	Permanent	Full Time	1
Staff Services Manager III	Mandatory Reinstatement	Permanent	Full Time	1
Staff Services Manager I	Retired Annuitant	Temporary	Intermittent	1
Office Technician (Typing) - LEAP	Temporary Authorization Utilization (TAU)	Temporary	Full Time	1
Student Assistant	TAU	Temporary	Intermittent	1
Investment Officer I	Training and Development	Permanent	Full Time	1
Associate Governmental Program Analyst	Transfer	Permanent	Full Time	1
Associate Pension Program Analyst	Transfer	Permanent	Full Time	2
Investment Officer I	Transfer	Permanent	Full Time	1
Office Technician (General)	Transfer	Permanent	Full Time	2
Pension Program Analyst	Transfer	Permanent	Full Time	3
Research Program Specialist	Transfer	Permanent	Full Time	1
Staff Management Auditor (Specialist)	Transfer	Permanent	Full Time	1

FINDING NO. 2 – Appointment Documentation Was Not Kept for the Appropriate Amount of Time

Summary: The CalSTRS failed to retain personnel records such as NOPAs and applications. Specifically, of the 55 appointments reviewed, the CalSTRS did not retain nine NOPAs and 25 applications.

Criteria: As specified in section 26 of the Board's regulations, appointing powers are required to retain records related to affirmative action, equal employment opportunity, examinations, merit, selection, and appointments for a minimum period of five years from the date the record is created. These records are required to be readily accessible and retained in an orderly and systematic manner. (Cal. Code Reg., tit. 2, § 26.) Section 174 of the Board's regulations specifically applies to examination applications and requires a two year retention period.

Severity: Non-Serious or Technical. Without documentation, the CRU could not verify if the appointments were properly conducted.

Cause: The CalSTRS states that they retain hiring information electronically via an imaging system, and any missing documentation is due to clerical errors.

Action: It is recommended that within 60 days of the Executive Officer's approval of these findings and recommendations, the CalSTRS submit to the CRU a written corrective action plan that addresses the corrections the department will implement to ensure conformity with the record retention requirements of California Code of Regulations title 2, section 26. Copies of any relevant documentation should be included with the plan.

FINDING NO. 3 – Equal Employment Opportunity Questionnaires Were Not Separated from All Applications

Summary: Out of 55 appointments reviewed, five appointment files included applications where EEO questionnaires were not separated from the STD 678 employment application. Specifically, 12 applications reviewed included EEO questionnaires that were not separated from the STD 678 employment application.

Criteria: Government Code section 19704 makes it unlawful for a hiring department to require or permit any notation or entry to be made on any application indicating or in any way suggesting or pertaining to any protected category listed in Government Code section 12940, subdivision (a) (e.g., a person's race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status). Applicants for employment in state civil service are asked to provide voluntarily ethnic data about themselves where such data is determined by the CalHR to be necessary to an assessment of the ethnic and sex fairness of the selection process and to the planning and monitoring of affirmative action efforts. (Gov. Code, § 19705.) The EEO questionnaire of the state application form (STD. 678) states, "This questionnaire will be separated from the application prior to the examination and will not be used in any employment decisions."

Severity: Very Serious. The applicants' protected classes were visible, subjecting the agency to potential liability.

Cause: The CalSTRS states that while they are unable to verify applications were released to a hiring manager with any EEO questionnaire attached, the staff responsible for processing applications did not remove all EEO questionnaires from applications.

Action: It is recommended that within 60 days of the Executive Officer's approval of these findings and recommendations, the CalSTRS submit to the CRU a written corrective action plan that the department will implement to ensure that EEO questionnaires are separated from all applications. Copies of any relevant documentation should be included with the plan.

Equal Employment Opportunity

Each state agency is responsible for an effective EEO program. (Gov. Code, § 19790.) The appointing power for each state agency has the major responsibility for monitoring the effectiveness of its EEO program. (Gov. Code, § 19794.) To that end, the appointing power must issue a policy statement committed to EEO; issue procedures for filing, processing, and resolving discrimination complaints; issue procedures for providing equal upward mobility and promotional opportunities; and cooperate with the CalHR by providing access to all required files, documents and data. (*Ibid*.) In addition, the appointing power must appoint, at the managerial level, an EEO Officer, who shall report directly to, and be under the supervision of, the director of the department to develop, implement, coordinate, and monitor the department's EEO program. (Gov. Code, § 19795.)

Because the EEO Officer investigates and ensures proper handling of discrimination, sexual harassment and other employee complaints, the position requires separation from the regular chain of command, as well as regular and unencumbered access to the head of the organization.

Each state agency must establish a separate committee of employees who are individuals with a disability, or who have an interest in disability issues, to advise the head of the agency on issues of concern to employees with disabilities. (Gov. Code, § 19795, subd. (b)(1).) The department must invite all employees to serve on the committee and take appropriate steps to ensure that the final committee is comprised of members who have disabilities or who have an interest in disability issues. (Gov. Code, § 19795, subd. (b)(2).)

The CRU reviewed the CalSTRS EEO program that was in effect during the compliance review period.

FINDING NO. 4 – Disability Advisory Committee Was Not Active

Summary: The CalSTRS did not have an active DAC.

Criteria: Each state agency must establish a separate committee of employees who are individuals with a disability, or who have an interest in disability issues, to advise the head of the agency on issues of concern to employees with disabilities. (Gov. Code, § 19795, subd. (b)(1).) The department must invite all employees to serve on the committee and take appropriate steps to ensure that

the final committee is comprised of members who have disabilities or who have an interest in disability issues. (Gov. Code, § 19795, subd. (b)(2).)

Severity: Very Serious. The agency head does not have direct information issues of concern to employees or other persons with disabilities and input to correct any underrepresentation. The lack of a DAC may limit an agency's ability to recruit and retain a qualified workforce, impact productivity, and subject the agency to liability.

Cause: The CalSTRS states that a DAC has not been formed due to workload constraints and priorities.

Action: The CalSTRS must take immediate steps to ensure the establishment of a DAC, comprised of members who have disabilities or who have an interest in disability issues. The CalSTRS must submit to the CRU a written report of compliance, including the DAC roster, agenda, and meeting minutes, no later than 60 days from the date of the SPB Executive Officer's approval of these findings and recommendations.

Personal Services Contracts

A PSC includes any contract, requisition, or purchase order under which labor or personal services is a significant, separately identifiable element, and the business or person performing the services is an independent contractor that does not have status as an employee of the State. (Cal. Code Reg., tit. 2, § 547.59.) The California Constitution has an implied civil service mandate limiting the state's authority to contract with private entities to perform services the state has historically or customarily performed. Government Code section 19130, subdivision (a), however, codifies exceptions to the civil service mandate where PSC's achieve cost savings for the state. PSC's that are of a type enumerated in subdivision (b) of Government Code section 19130 are also permissible. Subdivision (b) contracts include private contracts for a new state function, services that are not available within state service, services that are incidental to a contract for the purchase or lease of real or personal property, and services that are of an urgent, temporary, or occasional nature.

For cost-savings PSC's, a state agency is required to notify SPB of its intent to execute such a contract. (Gov. Code, § 19131.) For subdivision (b) contracts, the SPB reviews

the adequacy of the proposed or executed contract at the request of an employee organization representing state employees. (Gov. Code, § 19132.)

During the period under review, April 1, 2017, through September 30, 2017 the CalSTRS had 51 PSC's that were in effect. The CRU reviewed 20 of those contracts, which are listed below:

Vendor	Services	Contract Dates	Total or Amended Contract Amount	Sufficient Justification Identified?
Access Information Protected	Offsite Tape Media Storage, Retrieval, and Destruction	7/1/2017 - 6/30/20	$14,378	Yes
Cambridge Associates, LLC	Private Equity Program Advisory Services	5/31/14 - 5/30/19	$5,600,000	Yes
Estrada Consulting, Inc.	Test Analyst Services	7/1/17 - 6/30/20	$460,800	Yes
GoldLink Pacific, Inc.	Senior System Engineer Services	4/17/17 - 4/16/20	$489,600	Yes
Grant Thornton	Auditing Services	6/30/15 - 6/29/18	$189,515	Yes
Independent Courier Service	Mail Courier Services	7/1/17 - 6/30/22	$29,700	Yes
Institute of Internal Auditors, Inc.	Training Services	7/1/15 - 6/30/17	$43,275	Yes
Jackson Walker, LLP	Legal Services	7/30/15 - 7/29/21	$600,000	No
Katrina Kennedy Training	Training Services	7/1/14 - 6/30/18	$49,925	Yes
MG Systems and Software, LLC	Senior C#.Net Software Developer	8/31/15 - 8/30/18	$172,800	Yes
Radian Solutions	Test Analyst Services	7/1/17 - 6/30/20	$501,120	Yes
Sacramento County Sheriff's Department	LiveScan Fingerprint Services	10/1/17 - 6/30/22	$55,500	Yes
Sheppard, Mulin, Richter & Hampton, LLP	Legal Services	3/1/17 - 12/30/19	$600,000	No
Signal Perfection Limited	Audio Visual Services	9/15/17 - 9/14/22	$524,750	Yes
Steptoe & Johnson, LLP	Legal Services	3/1/17 - 12/30/21	$120,000	No

Vendor	Services	Contract Dates	Total or Amended Contract Amount	Sufficient Justification Identified?
SupportFocus, Inc.	Test Analyst Services	7/1/17 - 6/30/20	$587,520	Yes
Thomas V. Ennis Consulting	Accounting Technical Advisor and Business Analyst Services	10/20/14 - 10/19/18	$156,400	Yes
University Enterprises, Inc.	Video and Media Services	7/1/14 - 6/30/18	$177,169	Yes
Vasquez & Company, LLP	Accounting Services	1/1/16 - 12/31/19	$178,946	Yes
Vector Consulting, Inc.	Test Analyst Services	7/1/17 - 6/30/20	$397,440	Yes

FINDING NO. 5 – Sufficient Justification was Not Provided for All Personal Services Contracts

Summary: The CalSTRS did not provide sufficient written justification for three of the 20 PSC's reviewed during the compliance review period. Specifically, the three PSC's executed for legal services in the above table did not contain specific and detailed factual information demonstrating how the contract meets the conditions specified in Government Code section 19130, subdivision (b), in their justifications.

Criteria: Government Code section 19130 establishes standards for the use of PSC's including conditions that must be met in order for the PSC to be permissible. Whenever an agency executes a PSC under Government Code section 19130, subdivision (b), the department must document a written justification that includes specific and detailed factual information that demonstrates how the contract meets one or more conditions specified in Government Code section 19130, subdivision b. The agency shall also maintain the written justification for the duration of the contract and any extensions of the contract.

Severity: Serious. Specific and detailed written justifications must be submitted with each PSC in order to ensure that the conditions

established in Government Code section 19130 are met, including services not being available within civil service.

Cause: The CalSTRS states that their program areas lacked a clear understanding related to the proper processing of the PSC justification form.

Action: It is recommended that within 60 days of the Executive Officer's approval of these findings and recommendations, the CalSTRS submit to the CRU a written corrective action plan that addresses the corrections the department will implement to ensure conformity with the requirements of Government Code section 19131. Copies of any relevant documentation should be included with the plan.

Mandated Training

Each member, officer, or designated employee of a state agency who is required to file a statement of economic interest (referred to as "filers") because of the position he or she holds with the agency is required to take an orientation course on the relevant ethics statutes and regulations that govern the official conduct of state officials. (Gov. Code, §§ 11146 & 11146.1.) State agencies are required to offer filers the orientation course on a semi-annual basis. (Gov. Code, § 11146.1.) New filers must be trained within six months of appointment and at least once during each consecutive period of two calendar years, commencing on the first odd-numbered year thereafter. (Gov. Code, § 11146.3.)

Upon the initial appointment of any employee designated in a supervisory position, the employee shall be provided a minimum of 80 hours of training, as prescribed by the CalHR. (Gov. Code, § 19995.4, subd. (b).) The training addresses such topics as the role of the supervisor, techniques of supervision, performance standards, and sexual harassment and abusive conduct prevention. (Gov. Code, §§ 12950.1, subds. (a), (b), & (c), & 19995.4, subd. (b).) The training must be successfully completed within the term of the employee's probationary period or within six months of the initial appointment, unless it is demonstrated that to do so creates additional costs or that the training cannot be completed during this time period due to limited availability of supervisory training courses. (Gov. Code, § 19995.4, subd. (c).) As to the sexual harassment and abusive-conduct prevention component, the training must thereafter be provided to supervisors once every two years. (Gov. Code, § 12950.1.)

Within 12 months of the initial appointment of an employee to a management or career executive assignment (CEA) position, the employee shall be provided leadership training and development, as prescribed by CalHR. (Gov. Code, §§ 19995.4, subds. (d) & (e).) For management employees the training must be a minimum of 40 hours and for CEAs the training must be a minimum of 20 hours. (*Ibid*.) Thereafter, for both categories of appointment, the employee must be provided a minimum of 20 hours of leadership training on a biannual basis. (*Ibid*.)

The Board may conduct reviews of any appointing power's personnel practices to ensure compliance with civil service laws and Board regulations. (Gov. Code, § 18661, subd. (a).) In particular, the Board may audit personnel practices related to such matters as selection and examination procedures, appointments, promotions, the management of probationary periods, and any other area related to the operation of the merit principle in state civil service. (*Ibid*.) Accordingly, the CRU reviews documents and records related to training that appointing powers are required by the afore-cited laws to provide its employees.

The CRU reviewed the CalSTRS' mandated training program that was in effect during the compliance review period. The CalSTRS' supervisory training, sexual harassment prevention training, and ethics training are found to be out of compliance.

FINDING NO. 6 – Supervisory Training Was Not Provided for All Supervisors

Summary: The CalSTRS did not provide basic supervisory training to 27 of 49 new supervisors within twelve months of appointment.

Criteria: Each department must provide its new supervisors a minimum of 80 hours of supervisory training within the probationary period. Upon completion of the initial training, supervisory employees shall receive a minimum 20 hours of leadership training biannually. (Gov. Code, § 19995.4, subd. (b) and (c.).)

Upon initial appointment of an employee to a managerial position, each employee must receive 40 hours of leadership training within 12 months of appointment. Thereafter, the employee shall receive a minimum of 20 hours of leadership training biannually. (Gov. Code, § 19995.4, subd. (d).)

Upon initial appointment of an employee to a CEA position, each employee must receive 20 hours of leadership training within 12 months of appointment. Thereafter, the employee shall receive a minimum of 20 hours of leadership training biannually. (Gov. Code, § 19995.4, subd. (e).)

Severity: Very Serious. The department does not ensure its leaders are properly trained. Without proper training, leaders may not properly carry out their leadership roles, including managing employees.

Cause: The CalSTRS states that that they feel this finding is caused by the failure of individuals to complete the training.

Action: The CalSTRS must take appropriate steps to ensure that new supervisors are provided supervisory training within twelve months of appointment. It is therefore recommended that no later than 60 days after the SPB's Executive Officer's approval of these findings and recommendations, the CalSTRS must submit a written corrective action plan to ensure compliance with basic supervisory training mandates. Copies of any relevant documentation should be included with the plan.

FINDING NO. 7 – Ethics Training Was Not Provided for All Filers

Summary: The CalSTRS did not provide ethics training to three of 163 new filers within six months of their appointment. In addition, the CalSTRS did not provide ethics training to six of 169 existing filers.

Criteria: New filers must be provided ethics training within six months of appointment. Existing filers must be trained at least once during each consecutive period of two calendar years commencing on the first odd-numbered year thereafter. (Gov. Code, § 11146.3, subd. (b).)

Severity: Very Serious. The department does not ensure that its filers are aware of prohibitions related to their official position and influence.

Cause: The CalSTRS states that that they feel this finding is caused by the failure of individuals to complete the training.

Action: The CalSTRS must take appropriate steps to ensure that filers are provided ethics training within the time periods prescribed. It is therefore recommended that no later than 60 days after the SPB's Executive Officer's approval of these findings and recommendations, the CalSTRS must submit a written corrective action plan to ensure compliance with ethics training mandates. Copies of any relevant documentation should be included with the plan.

FINDING NO. 8 – Sexual Harassment Prevention Training Was Not Provided for All Supervisors

Summary: The CalSTRS provided sexual harassment prevention training to all existing supervisors every two years; however CalSTRS did not provide sexual harassment prevention training to 14 of 106 new supervisors within six months of their appointment.

Criteria: Each department must provide its supervisors two hours of sexual harassment prevention training every two years. New supervisors must be provided sexual harassment prevention training within six months of appointment. (Gov. Code, § 12950.1, subd. (a).)

Severity: Very Serious. The department does not ensure its new supervisors are properly trained to respond to sexual harassment or unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. This limits the department's ability to retain a quality workforce, impacts employee morale and productivity, and subjects the department to litigation.

Cause: The CalSTRS states that that they feel this finding is caused by the failure of individuals to complete the training.

Action: The CalSTRS must take appropriate steps to ensure that its supervisors are provided sexual harassment prevention training within the time periods prescribed. It is therefore recommended that no later than 60 days after the SPB's Executive Officer's approval of these findings and recommendations, the CalSTRS must submit a written corrective action plan to ensure compliance with sexual

harassment prevention training mandates. Copies of any relevant documentation should be included with the plan.

Compensation and Pay

Salary Determination

The pay plan for state civil service consists of salary ranges and steps established by CalHR (Cal. Code Reg., tit. 2, § 599.666). Several salary rules dictate how departments calculate and determine an employee's salary rate[6] upon appointment depending on the appointment type, the employee's state employment and pay history, and tenure.

During the period under review, July 1, 2016 to March 31, 2017, the CalSTRS made 358 appointments. The CRU reviewed 20 of those appointments to determine if the CalSTRS applied salary regulations accurately and correctly processed employees' compensation, which are listed below:

Classification	Appointment Type	Tenure	Time Base	Salary (Monthly Rate)
Account Analyst	Certification List	Permanent	Full Time	$4,016
Assistant Information Systems Analyst	Certification List	Permanent	Full Time	$3,247
Assistant Information Systems Analyst	Certification List	Permanent	Full Time	$3,247
Associate Pension Program Analyst	Certification List	Permanent	Full Time	$4,830
Associate Portfolio Manager, State Teacher's Retirement System	Certification List	Permanent	Full Time	$9,163
Associate Portfolio Manager, State Teacher's Retirement System	Certification List	Permanent	Full Time	$10,203
Financial Accountant I	Certification List	Permanent	Full Time	$5,743
Office Technician	Certification List	Permanent	Full Time	$2,809
Office Technician	Certification List	Permanent	Full Time	$2,833
Staff Services Analyst	Certification List	Permanent	Full Time	$2,945
Staff Services Analyst	Certification List	Permanent	Full Time	$2,945

[6] "Rate" is any one of the salary rates in the resolution by CalHR which establishes the salary ranges and steps of the Pay Plan (CA CCR Section 599.666).

Staff Services Manager II	Certification List	Permanent	Full Time	$7,274
Systems Software Specialist III (Supervisory)	Certification List	Permanent	Full Time	$8,816
Associate Portfolio Manager, State Teacher's Retirement System	Mandatory Reinstatement	Permanent	Full Time	$10,107
Pension Program Manager I	Mandatory Reinstatement	Permanent	Full Time	$5,542
Personnel Specialist	Mandatory Reinstatement	Permanent	Full Time	$3,749
Associate Governmental Program Analyst	Transfer	Permanent	Full Time	$5,072
Associate Governmental Program Analyst	Transfer	Retired Annuitant	Intermittent	$5,758
Pension Program Analyst	Transfer	Permanent	Full Time	$3,579
Pension Program Analyst	Transfer	Permanent	Full Time	$4,217

FINDING NO. 9 – Salary Determination Laws Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found no deficiencies in the 20 salary determinations that the CalSTRS made during the compliance review period. The CalSTRS appropriately calculated and processed the salaries for each appointment and correctly determined employees' anniversary dates ensuring that subsequent merit salary adjustments will satisfy civil service laws, board rules and CalHR policies and guidelines.

Alternate Range Movement Salary Determination (within same classification)

If an employee qualifies under established criteria and moves from one alternate range to another alternate range of a class, the employee shall receive an increase or a decrease equivalent to the total of the range differential between the maximum salary rates of the alternate ranges (Cal. Code Reg., tit. 2, § 599.681). However, in many instances, CalHR provides salary rules departments must use when employees move between alternate ranges. They are described in the alternate range criteria (CalHR Pay Scales). When no salary rule or method is cited in the alternate range criteria, departments must default to rule 599.681.

During the period under review, April 1, 2016 to December 31, 2016, the CalSTRS made 67 alternate range movements within a classification (335 transactions). The CRU reviewed 12 of those alternate range movements to determine if the CalSTRS applied

salary regulations accurately and correctly processed employee's compensation, which are listed below:

Classification	Prior Range	Current Range	Time Base	Salary
Assistant Information Systems Analyst	Range A	Range C	Full Time	$4,016
Assistant Information Systems Analyst	Range A	Range C	Full Time	$4,016
Associate Governmental Program Analyst	Range A	Range L	Full Time	$4,734
Attorney IV	None	Range A	Full Time	$10,763
Investment Officer I, CalSTRS	Range A	Range D	Full Time	$5,053
Investment Officer I, CalSTRS	Range B	Range C	Full Time	$4,428
Investment Officer I, CalSTRS	Range C	Range D	Full Time	$5,053
Pension Program Analyst	Range A	Range C	Full Time	$3,092
Pension Program Analyst	Range A	Range C	Full Time	$3,092
Pension Program Analyst	Range A	Range C	Full Time	$3,092
Pension Program Analyst	Range A	Range C	Full Time	$3,092
Pension Program Analyst	Range B	Range C	Full Time	$3,520

FINDING NO. 10 – Alternate Range Movements Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found that the 12 alternate range movements the CalSTRS made during the compliance review period, satisfied civil service laws, board rules and CalHR policies and guidelines.

Hiring Above Minimum Requests

Government Code Section 19836 authorizes CalHR to allow payments above-the minimum rate in the salary range (HAM) in order to hire persons who have extraordinary qualifications. On April 1, 2005, CalHR granted delegated authority to all departments to approve HAM's for extraordinary qualifications, former legislative employees, and

former exempt employees (PML, “Delegation of Personnel Management Functions,” 2005-012). On September 25, 2007, CalHR also granted delegated authority for all departments to approve exceptions to the HAM criteria for extraordinary qualifications for all new state employees without prior review or approval from CalHR. However, for existing state employees, departments should obtain approval from CalHR and delegated authority does not apply (PML, “Hiring Above Minimum Standards for Extraordinary Qualifications,” 2010-005).

Prior to approving a HAM under delegated authority, departments should demonstrate and document the candidate’s extraordinary qualifications. The candidate’s extraordinary qualifications should contribute to the work of the department significantly beyond that which other applicants offer. The extraordinary qualifications should provide expertise in a particular area of the department’s program well beyond the normal requirements of the class. The department may also consider the unique talent, ability or skill demonstrated by the candidate’s previous job experience as extraordinary qualifications, but the scope and depth of such experience should be more significant than the length. The qualifications and hiring rates of State employees already in the same class should be carefully considered (CalHR Online Manual Section 1707). In all cases, the candidate’s current salary or other bona fide salary offers should be above the minimum rate, verified and appropriately documented. Additionally, departments must request and approve HAM’s before a candidate accepts employment (Ibid.).

During the period under review, July 1, 2016 to March 31, 2017, the CalSTRS authorized seven HAM requests. The CRU reviewed seven of those authorized HAM requests to determine if the CalSTRS correctly applied government code 19836 and appropriately verified, approved and documented candidates’ extraordinary qualifications and subsequent salaries, which are listed below:

Classification	Appointment Type	Status	Salary Range	Salary (Monthly Rate)
Associate Accounting Analyst	List Appointment	New to State	$4,829-$6,048	$6,000
Attorney III	List Appointment	New to State	$8,434-$10,820	$9,450
Investment Officer II	List Appointment	New to State	$6,097-$7,632	$7,632
Investment Officer II	List Appointment	New to State	$6,097-$7,632	$6,400
Investment Officer III	List Appointment	New to State	$8,149-$9,717	$9,176

Senior Information Systems Analyst	List Appointment	New to State	$5,824-$7,655	$7,655
Systems Software Specialist II	List Appointment	New to State	$6,288-$8,268	$6,388

FINDING NO. 11 – Hiring Above Minimum Requests Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found that the seven HAM requests the CalSTRS made during the compliance review period satisfied civil service laws, board rules and CalHR policies and guidelines.

Red Circle Rates

A red circle rate is a rate of pay authorized for an individual above the maximum salary for his or her class (Government Code § 19837). Departments may authorize a red circle rate in the following circumstances: management initiated change[7], lessening of abilities[8], downward reclassification[9], split-off[10], allocation standard changes[11], or changes in salary setting methods[12] (*Ibid.*).

If a salary reduction is the result of split-off, changes in allocation standards, changes in salary setting methods, or a downward reclassification initiated by SPB or CalHR staff determination, the affected employee may receive a red circle rate regardless of the employee's State service total. The employee may retain it until the maximum salary of his or her class equals or exceeds the red circle rate (Classification and Pay Guide Section 260).

If an employee is moved to a position in a lower class because of management-initiated changes, he or she may receive a red circle rate provided he or she has a minimum of

[7] Any major change in the type of classes, organizational structure, and/or staffing levels in a program.
[8] Refers to an employee who, after many years of satisfactory service, no longer possess the ability to perform the duties and responsibilities of his/her position.
[9] Downward reclassification is when, as a result of SPB action or a DPA staff determination, an incumbent's position is moved to a lower class without the duties being changed.
[10] Split off is when one class is split into two or more classes, one of which is at a lower salary level than the original class.
[11] Allocation standards for two or more classes may change to the degree that a position originally allocated to one class may be reallocated to a class with a lower salary without a change in duties.
[12] Revised valuation standards applied in setting the salary for a class may result in reducing the salary of a class.

ten years' State service[13] and has performed the duties of the higher class satisfactorily[14]. The length of the red circle rate resulting from a management-initiated change is based on the affected employee's length of State Service. The red circle rate ends when the maximum salary of the class equals or exceeds the red circle rate or at the expiration of eligibility (*Ibid.*).

An employee whose position is blanketed into the State civil service from another public jurisdiction may receive a red circle rate regardless of the length of service in the other jurisdiction (Cal. Code Reg., tit. 2, § 275). The employee may retain the red circle rate until the maximum salary of the class to which the employee's position is allocated equals or exceeds the red circle rate.

Additionally, a red circle rate may be authorized for a former CEA appointee who is reinstating to a civil service classification, a CEA with no prior civil service in a promotional exam and is being appointed from a list without a break in service, or a CEA appointee who is being reduced to a lower CEA salary rate (CalHR Class and Pay Guide Section 440). If an employee, with ten years of State service, has one or more years of State service under a CEA appointment, has been terminated from a CEA appointment, and the termination was not voluntary nor was it based on unsatisfactory performance, CA Code of Regulations Section 599.988 mandates a red circle rate. In those cases where the employee's CEA termination was voluntary, but all of the other criteria above are met, Rule 599.988 allows the employee to be permissively granted a red circle rate. This rate is based upon the CEA salary rate received at the time of the termination. Government Code Section 13332.05 limits the duration of the red circle rate to no more than 90 calendar days following termination of a CEA appointment.

As of April 1, 2005, departments have delegated authority to approve red circle rates for general civil service employees and CEA positions for up to 90 days (PML, "Delegation of Personnel Management Functions," 2005-012). Current Bargaining Unit agreements also provide guidelines and rules on red circle rates that may supersede applicable laws, codes, rules and/or CalHR policies and guidelines.

During the period under review, April 1, 2016 to December 31, 2016, the CalSTRS authorized one Red Circle Rate request. The CRU reviewed the Red Circle Rate

[13] As calculated by the State Service and Seniority Unit at CalHR. An employee with nine years' State service qualifies if the employee had been laid off or had been on a leave of absence for one or more years to reduce the effect of a layoff (CCR § 599.608).

[14] The latter requirement is normally satisfied by the successful completion of a probationary period, unless there is compelling evidence to suggest otherwise.

request to determine if the CalSTRS correctly verified, approved and documented the Red Circle Rate authorization process:

FINDING NO. 12 – Red Circle Rate Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found that the one Red Circle Rate request the CalSTRS made during the compliance review period satisfied civil service laws, board rules, and CalHR policies and guidelines.

Arduous Pay

Effective July 1, 1994, appointing authorities were provided the discretion to provide additional compensation for employees exempt from the Fair Labor Standards Act (FLSA) who perform arduous work that exceeds the normal demands of state service employment. (CalHR's Human Resource Manual Section 1702). The work must be extraordinarily demanding, time consuming, and significantly exceed employees' normal workweek. The employee cannot be entitled to receive any other sort of compensation such as overtime. Eligible employees are FLSA-exempt employees who do not receive compensation in recognition of hours worked in excess of 40 hours per week. The duration of the arduous period must be at least two weeks or more (*Ibid.).*

Excluded and represented employees who are FLSA-exempt and assigned to Work Week Group E are eligible to receive up to four (4) months of pay per fiscal year, or per event for emergencies, if the following conditions are met[15]:

- There is a nonnegotiable deadline or extreme urgency;
- Work exceeds normal work hours and normal productivity;
- Work is unavoidable;
- Work involves extremely heavy workload;
- Employee is eligible for no other compensation, and
- The circumstances that support this pay differential are documented.

Departments have delegated authority to approve arduous pay for excluded employees who are FLSA-exempt, but CalHR approval is required for any arduous pay issued to represented employees.

[15] Applicable Memorandum of Understandings or Bargaining Unit Agreements detail other specific criteria.

Although departments have delegated authority to approve Pay Differential 62, they are required to fill out CalHR Form 777, documenting the circumstances, assessment and rationale behind all Pay Differential 62 approvals. A new Form 777 should be filled out for every employee receiving the pay differential, every time an employee is approved to receive a new pay differential, and every time an employee wants to extend their arduous pay. Extensions are only granted in rare circumstances. Departments must keep the Form 777 on file and retain the form for five years after the approval date (*Ibid.)*.

During the period under review, April 1, 2016 to December 31, 2016, the CalSTRS issued Arduous Pay to nine employees. The CRU reviewed nine arduous pay authorizations listed below to ensure compliance with applicable CalHR policies and guidelines:

Classification	Bargaining Unit	Work Week Group	Time Base	Total Compensation	Number of Months Received
Accounting Administrator II	S01	E	Full Time	$4,800	4 Months
Financial Accountant III	S01	E	Full Time	$4,800	4 Months
Financial Accountant III	S01	E	Full Time	$4,800	4 Months
Pension Program Manager I	S01	E	Full Time	$600	1 Month
Pension Program Manager I	S01	E	Full Time	$600	1 Month
Pension Program Manager II	S01	E	Full Time	$300	1 Month
Pension Program Manager II	S01	E	Full Time	$2,400	4 Months
Pension Program Manager III	M01	E	Full Time	$1,800	3 Months
Staff Services Manager I	S01	E	Full Time	$4,800	4 Months

FINDING NO. 13 – Arduous Pay Authorization Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found that the one Arduous Pay Authorization request the CalSTRS made during the compliance review period satisfied civil service laws, board rules and CalHR policies and guidelines.

Pay Differentials

A pay differential is special additional pay recognizing unusual competencies, circumstances, or working conditions applying to some or all incumbents in select classes. A pay differential may be appropriate in those instances when a subgroup of positions within the overall job class might have unusual circumstances, competencies, or working conditions that distinguish these positions from other positions in the same class. Typically, pay differentials are based on qualifying pay criteria such as: work locations or shift assignments; professional or educational certification; temporary responsibilities; special licenses, skills or training; performance-based pay; incentive-based pay; or, recruitment and retention (CalHR Classification and Pay Manual Section 230).

California State Civil Service Pay Scales (Pay Scales) Section 14 describes the qualifying pay criteria for the majority of pay differentials. However, some of the alternate range criteria in the Pay Scales function as pay differentials. Generally, departments issuing pay differentials should, in order to justify the additional pay, document the following: the effective date of the pay differential, the collective bargaining unit identifier, the classification applicable to the salary rate and conditions along with the specific criteria, and any relevant documentation to verify the employee meets the criteria.

During the period under review, April 1, 2016 to December 31, 2016, the CalSTRS issued pay differentials to 29 employees. (For the purposes of CRU's review, only monthly pay differentials were selected for review at this time.) The CRU reviewed 10 of these pay differentials to ensure compliance with applicable CalHR policies and guidelines. These are listed below:

Classification	Bargaining Unit	Pay Differential	Earning ID	Monthly Amount
Assistant Chief Counsel	M02	8	8CE	9.61%
Deputy Chief Investment Officer, CalSTRS	M01	388	8EN	5%

Investment Director, CalSTRS	M01	388	8EN	5%
Investment Operations Director, CalSTRS	M01	388	8EN	5%
Investment Officer II, CalSTRS	R01	360	8CFA	5%
Investment Officer III, CalSTRS	R04	360	8CFA	5%
Pension Program Analyst	R01	105	8PPR	$100
Pension Program Representative	R04	105	8PPR	$100
Portfolio Manager, CalSTRS	M01	105	8EN	5%
Senior Pension Program Representative	R04	105	8PPR	$100

FINDING NO. 14 – Pay Differentials Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found that the ten pay differentials that the CalSTRS made during the compliance review period, satisfied civil service laws, board rules and CalHR policies and guidelines.

Out-of-Class Assignments and Pay

For excluded[16] and most rank and file employees, out of class work is defined as performing, more than 50 percent of the time, the full range of duties and responsibilities allocated to an existing class and not allocated to the class in which the person has a current, legal appointment (CA Code of Regulations § 599.810).

According to CalHR's Classification and Pay Guide, out-of-class assignments (OOC) should only be used as a last resort to accommodate temporary staffing needs. All civil service alternatives should be explored first before using OOC assignments. However, certain MOU provisions and DPA Rule 599.810 allow for short-term OOC assignments to meet temporary staffing needs. Should OOC work become necessary, the assignment would be made pursuant to the applicable MOU provision or DPA regulation. Before assigning the OOC work, the department should have a plan to correct the situation before the 120-day time period expires (Section 375).

[16] "Excluded employee" means an employee as defined in section 3572(b) of the Government Code (Ralph C. Dills Act) except those excluded employees who are designated managerial pursuant to section 18801.1 of the Government Code.

During the period under review, April 1, 2016 to December 1, 2016, the CalSTRS issued out-of-class pay[17] to 10 employees. The CRU reviewed two of these out-of-class assignments to ensure compliance with applicable CalHR policies and guidelines, which are listed below:

Classification	Bargaining Unit	Out-of-Class Classification	Time Frame	Out-of-Class Total Compensation
Associate Pension Program Analyst	R01	Pension Program Manager I	8/4/2016-12/03/2016	$2,056.54
Pension Program Manager III	M01	CEA	3/14/2016-3/13/2017	$3,709.34

FINDING NO. 15 – Out of Class Pay Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found that the two out of class pays that the CalSTRS made during the compliance review period satisfied civil service laws, board rules and CalHR policies and guidelines.

Leave

Administrative Time Off

Administrative Time Off (ATO) is a form of paid administrative leave status initiated by appointing authorities for a variety of reasons. ATO is used when an employee cannot come to work because of a pending investigation, fitness for duty evaluation, or when work facilities are unavailable. Additionally, ATO may be granted when employees need time off for any of the following: donating blood, extreme weather that makes getting to work impossible, and/or, when employees need time off to attend special events. Any ATO requests lasting over 30 days must be submitted and approved by CalHR. Approval will generally be given in 30 calendar day increments and any extension must be approved prior to the expiration of the 30 calendar days. Departments must properly document and track ATO for any length of time (PML," Administrative Time Off (ATO) – Policy, Procedure and Documentation Requirements", 2012-008).

Employees may also be granted a paid leave of absence of up to five days by their appointing power when the employee works or resides in a county where a state of

[17] Excluding bilingual and arduous pay.

emergency has been proclaimed by the Governor (§ 599.785.5. Administrative Time Off - During State of Emergency).

During the period under review, January 1, 2016 to December 31, 2016, CalSTRS placed 13 employees on ATO. The CRU reviewed 12 of the employees on ATO to ensure compliance with applicable laws, regulations and CalHR policy and guidelines, which are listed below:

Classification	Time Frame	Number of Days/Hours on ATO
Associate Information Systems Analyst (Specialist)	7/19/2016 - 7/19/2016	1 Day
CEA	2/16/2016 - 2/16/2016	1 Day
Data Processing Manager IV	6/14/2016 - 9/14/2016	67 Days
Investment Officer I, California State Teacher's Retirement System	4/14/2016 - 4/21/2016	6 Days
Investment Officer I, California State Teacher's Retirement System	6/3/2016 - 6/9/2016	5 Days
Legal Analyst	1/6/2016 - 1/13/2016	6 Days
Office Technician (General)	2/12/2016 - 2/19/2016	6 Days
Pension Program Analyst	3/24/2016 - 4/1/2016	7 Days
Pension Program Analyst	9/6/2016 - 9/13/2016	6 Days
Pension Program Analyst	6/2016 and 11/2016	2 Days
Pension Program Manager II	10/28/2016 - 11/3/2016	5 Days
Systems Software Specialist III (Supervisory)	3/8/2016 - 3/9/2016	2 Days

FINDING NO. 16 – Administrative Time Off Authorizations Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

The CRU found no deficiencies in the 12 employees placed on ATO during the compliance review period. The CalSTRS provided the proper documentation justifying the use of ATO and adhered to applicable laws, regulations and CalHR policy and guidelines.

Leave Auditing and Timekeeping

Departments must keep complete and accurate time and attendance records for each employee and officer employed within the agency over which it has jurisdiction (Cal. Code Reg., tit. 2, § 599.665).

Additionally, in accordance with PML 2015-007 or CalHR Online Manual Section 2101, departments must create a monthly internal audit process to verify all leave input into any leave accounting system is keyed accurately and timely. If an employee's attendance record is determined to have errors or it is determined that the employee has insufficient balances for a leave type used, the attendance record must be amended. Attendance records shall be corrected by the pay period following the pay period in which the error occurred. Accurate and timely attendance reporting is required of all departments and is subject to audit.

During the period under review, November 2016 and December 2016, CalSTRS reported 40 units comprised of 1,086 active employees during the November 2016 pay period, and 40 units comprised of 1,092 active employees during the December 2016 pay period. The pay periods and timesheets reviewed by the CRU are summarized as follows:

Timesheet Leave Period	Number of Units Reviewed	Number of Employees	Number of Timesheets Reviewed
November 2016	9	322	322
December 2016	13	327	327

FINDING NO. 17 – Leave Activity and Correction Certification Forms Were Completed For All Leave Records Reviewed

The CRU found no deficiencies with the 649 timesheets or leave activity certification during the compliance review period. The CalSTRS provided the proper documentation justifying the review of all timesheets and adhered to applicable laws, regulations and CalHR policy and guidelines.

Leave Reduction Efforts

Departments must comply with the regulations and CalHR policies that require a leave plan for every employee with vacation or annual leave hours over the maximum amount permitted (Cal. Code Regs., tit. 2, § 599.742.1 and applicable Bargaining Unit

Agreements). Bargaining Unit Agreements and California Code of Regulations prescribe the maximum amount of vacation or annual leave permitted. For instance, according to California Code of Regulations, title 2, section 599.737, if a represented employee does not use all of the vacation to which he or she is entitled in a calendar year, "the employee may accumulate the unused portion, provided that on January 1st of a calendar year, the employee shall not have more than" the established limit as stipulated by the applicable bargaining unit agreement[18]. Likewise, if an excluded employee does not use all of the vacation to which he or she is entitled in a calendar year, the "employee may accumulate the unused portion of vacation credit, provided that on January 1st of a calendar year, the excluded employee shall not have more than 80 vacation days" (Cal. Code Regs., tit. 2, § 599.738).

In accordance with PML 2016-029, departments must create a leave reduction policy for their organization and monitor employees' leave to ensure compliance with the departmental leave policy; and ensure employees who have significant "over-the-cap" leave balances have a leave reduction plan in place and are actively reducing hours.

During the period under review, January 1, 2016, through December 31, 2016, the CalSTRS reported 142 employees who exceeded established limits of vacation or annual leave. The CRU reviewed eight of those employees' leave reduction plans to ensure compliance with applicable laws, regulations and CalHR policy and guidelines, which are listed below:

Classification	Bargaining Unit	Total Hours Over Established Limit [19]	Leave Reduction Plan Provided
Data Processing Manager III	M01	325	No
Data Processing Manager IV	M01	1265	No
Data Processing Manager IV	M01	251	No
Senior Programmer Analyst (Specialist)	R01	916	No
Systems Software Specialist II (Technical)	R01	172	No

[18] For represented employees, the established limit for annual or vacation leave accruals is 640 hours, however for bargaining units 06 there is no established limit and bargaining unit 5 the established limit is 816 hours.
[19] As of December 2016

Classification	Bargaining Unit	Total Hours Over Established Limit [19]	Leave Reduction Plan Provided
Systems Software Specialist II (Technical)	R01	37.5	No
Systems Software Specialist II (Technical)	R01	23	No
Systems Software Specialist III (Technical)	R01	104	No

FINDING NO. 18 – Leave Reduction Plans Were Not Provided for All Employees Whose Leave Balances Exceeded Established Limits

Summary: The CalSTRS did not provide leave reduction plans for all eight of the employees reviewed whose leave balances exceeded established limits.

Criteria: It is the intent of the state to allow employees to utilize credited vacation or annual leave each year for relaxation and recreation. (Cal. Code Regs., tit. 2, § 599.742.1), ensuring employees maintain the capacity to optimally perform their jobs. The employee shall also be notified by July 1 that if the employee fails to take off the required number of hours by January 1, the appointing power shall require the employee to take off the excess hours over the maximum permitted by the applicable regulation at the convenience of the agency during the following calendar year. (Cal. Code Regs., tit. 2, § 599.742.)

According to CalHR Online Manual Section 2124, "It is the policy of the state to foster and maintain a workforce that has the capacity to effectively produce quality services expected by both internal customers and the citizens of California. Therefore, appointing authorities and state managers and supervisors must create a leave reduction policy for the organization and monitor employees' leave to ensure compliance with the departmental leave policy; and; ensure employees who have significant 'over-the-cap' leave balances have a leave reduction plan in place and are actively reducing hours".

Severity: Non-Serious or Technical. California state employees have accumulated significant leave hours over the last several years creating an unfunded liability for departmental budgets. The value of this liability increases with each passing promotion and salary increase. Accordingly, leave balances exceeding established limits need to be addressed immediately. Another issue arises when employees separate from state service and departments are obligated to cash-out accrued leave credits at their current salary rates, which in most cases are higher than when much of the leave credits were earned. These payouts amount to millions of dollars each year, and represent an unfunded liability that must be paid from current-year funds. This puts a strain on departmental budgets as they must keep vital positions vacant, redirect from other funding sources, and/or request additional funds.

Cause: The CalSTRS states that although their Human Resources Office provides notification to all managers whose staff exceeds leave balance limits, many staff with leave balances that exceed approved limits did not document their plan to reduce balances and managers did not ensure written plans are in place.

Action: It is recommended that within 60 days of the Executive Officer's approval of these findings and recommendations, the CalSTRS submit to the CRU a written corrective action plan that addresses the corrections the department will implement to ensure conformity with California Code of Regulations, title 2, section 599.742 and CalHR Online Manual Section 2124. Copies of any relevant documentation should be included with the plan.

State Service

An employee who has 11 or more working days of service in a monthly pay period shall be considered to have a complete month, a month of service, or continuous service[20] (Cal. Code Regs., tit. 2, § 599.608).

[20] Except as provided in sections 599.609 and 599.776.1(b) of these regulations, in the application of Government Code sections 19143, 19849.9, 19856.1, 19858.1, 19859, 19861, 19863.1, 19997.4 and sections 599.682, 599.683, 599.685, 599.687, 599.737, 599.738, 599.739, 599.740, 599.746, 599.747, 599.787, 599.791, 599.840 and 599.843 of these regulations.

Hourly or daily rate employees working at a department in which the full-time workweek is 40 hours who earn the equivalent of 160 hours of service in a monthly pay period or accumulated pay periods shall be considered to have a complete month, a month of service, or continuous service (Cal. Code Regs., tit. 2, § 599.609).

For each additional qualifying monthly pay period as defined in section 599.608, the employee shall be allowed credit for vacation with pay on the first day of the following monthly pay period. When computing months of total state service to determine a change in the monthly credit for vacation with pay, only qualifying monthly pay periods of service before and after breaks in service shall be counted. Portions of non-qualifying monthly pay periods of service shall not be counted nor accumulated (Cal. Code Regs., tit. 2, § 599.739). On the first day following a qualifying monthly pay period, excluded employees[21] shall be allowed credit for annual leave with pay (Cal. Code Regs., tit. 2, § 599.752).

Permanent Intermittent employees earn vacation according to the preceding schedule for each increment of 160 hours worked. Hours worked in excess of 160 hours in a monthly pay period are not counted or accumulated.

During the period under review, April 1, 2016 to December 31, 2016, CalSTRS had nine employees with 715 transactions[22]. The CRU reviewed all nine of the employees to ensure compliance with applicable laws, regulations and CalHR policy and guidelines, which are listed below:

Type of 715 Transaction	Time Base	Number Reviewed
Non-Qualifying Pay Period	Full Time	10
Qualifying Pay Periods	Full Time	18

[21] As identified in Government Code sections 19858.3(a), 19858.3(b), or 19858.3(c) as it applies to employees excluded from the definition of state employee under section Government Code 3513(c), and appointees of the Governor as designated by the Department and not subject to section 599.752.1.
[22] Transaction code used for: temporary leaves of 30 calendar days or less (per SPB Rule 361) resulting in a non-qualifying pay period; used for qualifying a pay period while on NDI; used for qualifying a pay period while employee is on dock and furlough. 715 Transaction include voids, deletes, and corrects.

FINDING NO. 19 – Incorrect Application of 715 Transaction

Summary: During the CalSTRS review an employee received state service and leave accruals for a non-qualifying pay period.

Criteria: The State recognizes two different types of absences while an employee is on pay status: paid and unpaid. Unpaid absences can affect whether a pay period is considered be a qualifying or non-qualifying pay period for State Service and leave accruals. In the application of Government Code section 19837, an employee shall be considered to have a month of state service if the employee either: (1) has had 11 or more working days of service in a monthly pay period; or (2) would have had 11 or more working days of service in a monthly pay period but was laid off or on a leave of absence for the purpose of lessening the impact of an impending layoff. Full time and fractional employees who work less than 11 working days in a pay period will have a non-qualifying month and will not receive State Service or Leave Accruals for that month. (California Code of Regulations, title 2, section 599.608). Hourly or daily rate employees working in a state agency in which the full-time workweek is 40 hours who earn the equivalent of 160 hours of service in a monthly pay period or accumulated pay periods shall be considered to have a complete month, a month of service, or continuous service. Hourly or daily rate employees who work less than 160 hours in a pay period will have a non-qualifying month and not be eligible to receive State Service or Leave Accruals for that month. (California Code of Regulations, title 2, section 599.609).

Severity: Very Serious. Failure to accurately apply 715 transactions resulted in an employee receiving incorrect state service and/or leave accruals.

Cause: The CalSTRS states that during the course of the compliance review it was found the 715 transaction was applied correctly, however, the Leave Accounting System was not updated in conjunction with the transaction. The issue has been corrected.

Action: It is recommended that within 60 days of the Executive Officer's approval of these findings and recommendations, the CalSTRS

submit to the SPB a written corrective action plan that addresses the corrections the department will implement to ensure conformity with California Code of Regulations, title 2, section 599.608, 599.609 and Government Code 19837.

Policy and Processes

Nepotism

It is the policy of the State of California to recruit, hire and assign all employees on the basis of merit and fitness in accordance with civil service statutes, rules and regulations. Nepotism is expressly prohibited in the state workplace because it is antithetical to California's merit based civil service. Nepotism is defined as the practice of an employee using his or her influence or power to aid or hinder another in the employment setting because of a personal relationship. Personal relationships for this purpose include but are not limited to, association by blood, adoption, marriage and/or cohabitation. In addition, there may be personal relationships beyond this general definition that could be subject to these policies. Overall, departmental nepotism policies should aim to prevent favoritism or bias based on a personal relationship when recruiting, hiring or assigning employees. Departments have discretion, based on organizational structure and size, to develop nepotism policies as they see fit (CalHR Online Manual Section 1204).

FINDING NO. 20 – Nepotism Policy Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

After reviewing the CalSTRS nepotism policy in effect during the compliance review period, the CRU verified that the policy was disseminated to all staff and emphasized the CalSTRS commitment to the state policy of recruiting, hiring and assigning employees on the basis of merit. Additionally, the CalSTRS nepotism policy was comprised of specific and sufficient components intended to prevent favoritism, or bias, based on a personal relationship from unduly influencing employment decisions as outlined in CalHR's Online Manual Section 1204.

Worker's Compensation

Pursuant to California Code of Regulations, title 8, section 9880, employers shall provide to every new employee at the time of hire or by the end of the first pay period, written notice concerning the rights, benefits, and obligations under workers' compensation law. This notice shall also contain a form that the employee can use to

pre-designate their personal physician or medical group as defined by Labor Code section 4600. Additionally, employers shall also provide a claim form and notice of potential eligibility to their employee within one working day of notice or knowledge that the employee has suffered a work related injury or illness (Labor Code, § 5401).

According to Labor Code section 3363.5, public employers may choose to extend workers' compensation coverage to volunteers that perform services for the organization. Workers' compensation coverage is not mandatory for volunteers as it is for employees. This is specific to the legally uninsured state departments participating in the Master Agreement. Departments with an insurance policy for workers' compensation coverage should contact their State Compensation Insurance Fund (State Fund) office to discuss the status of volunteers (PML, "Workers' Compensation Coverage for Volunteers," 2015-009). Those departments that have volunteers should have notified or updated their existing notification to the State Compensation Insurance Fund (SCIF) by April 1, 2015 whether or not they have decided to extend workers' compensation coverage to volunteers. In this case, the CalSTRS did not employ volunteers during the compliance review period.

FINDING NO. 21 – Workers' Compensation Process Complied with Civil Service Laws, Board Rules, and/or CalHR Policies and Guidelines

After reviewing the CalSTRS Workers' Compensation process that was in effect during the compliance review period, the CRU verified that the CalSTRS provides notice to their employees to inform them of their rights and responsibilities under CA workers' compensation law. Furthermore, the CRU verified that when the CalSTRS received worker's compensation claims, the CalSTRS properly provided claim forms within one working day of notice or knowledge of injury.

Performance Appraisals

According to Government Code Section 19992.2, departments must "prepare performance reports." Furthermore, California Code of Regulations, title 2, section 599.798, directs supervisors to conduct written performance appraisals and discuss overall work performance with permanent employees at least once in each twelve calendar months after the completion of the employee's probationary period.

The CRU selected 48 permanent CalSTRS employees for review to ensure that the department was conducting performance appraisals on an annual basis in accordance with applicable laws, regulations and CalHR policy and guidelines.

FINDING NO. 22 – Performance Appraisals Complied with Civil Service Laws and Regulations and CalHR Policies and Guidelines

The CalSTRS provided 48 of 48 written performance appraisals for the permanent CalSTRS employees selected for review. The CRU found no deficiencies in the performance appraisal process at the CalSTRS for those employees selected. Accordingly, the reviewed processes satisfied civil service laws, board rules and CalHR policies and guidelines.

DEPARTMENTAL RESPONSE

The CalSTRS' response is attached as Attachment 1.

SPB REPLY

Based upon the CalSTRS' written response, the CalSTRS will comply with the CRU recommendations and findings and provide the CRU with a corrective action plan.

It is further recommended that the CalSTRS comply with the afore-state recommendations within 60 days of the Executive Officer's approval and submit to the CRU a written report of compliance.

Attachment 1

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Kristel Turko, Personnel Officer
P.O. Box 15275, MS #31
Sacramento, CA 95851-0275
(916) 414-4933

August 24, 2018

Suzanne M Ambrose
Executive Officer
State Personnel Board
801 Capitol Mall
Sacramento, CA 95819

Dear Ms. Ambrose:

The California State Teachers Retirement System (CalSTRS) reviewed the draft Compliance Review Report prepared by the State Personnel Board's (SPB) Compliance Review Team.

Enclosed are CalSTRS responses to the findings. If you have question or would like to discuss further, please contact me at (916) 414-4954 or kturko@calstrs.com.

Sincerely,

Kristel Turko, Personnel Officer
CalSTRS Human Resources

Finding 1- Equal Employment Opportunity Questionnaires Were Not Separated From All Applications

Response: CalSTRS understands the intent of government code sections 19704 and 19705 (albeit, language contained in the codes is outdated), is to prevent bias in the hiring process. However, CalSTRS does not utilize examination applications to make hiring decisions. The examination in question, the Pension Program Representative, is a written examination. Examination applications are securely stored within Human Resources and are processed by an examination analyst. Candidates that are successful in completing the examination must apply for and compete for vacancies, which is separate from the examination.

With the implementation of the ECOS system and the use of electronic applications, CalSTRS is confident there will be no further findings relative to failure to remove EEO questionnaires, as the paper based process has been eliminated.

Finding 2- Appointment Documentation Was Not Kept for the Appropriate Amount of Time

Response: Although this finding is not serious/technical, CalSTRS has made modifications to our electronic Request for Personnel Action (RPA) SharePoint system as a result of this finding. Specifically, Notice of Personnel Actions (NOPAs) are stored within an employee's Official Personnel File. Pulling the information for purposes of response to a compliance review is a manual process and inevitably documents are missing. Going forward, the Personnel Specialists will scan a copy of the NOPAs into RPA SharePoint, to keep all appointment documentation together. And, echoing what is mentioned above, with the implementation of ECOS and use of electronic applications, CalSTRS is confident there will be no future findings relative to missing applications.

Finding 3- Equal Employment Opportunity Questionnaires Were Not Separated from All Applications

Response: CalSTRS Human Resources will continue to educate staff regarding the importance of separating the EEO questionnaire from paper applications submitted for job vacancies.

With the implementation of the ECOS system and use of electronic applications, CalSTRS is confident there will be no further findings relative to failure to remove EEO questionnaires.

Finding 4- Disability Advisory Committee is Not Active

Response: CalSTRS values Diversity and Inclusion of all staff and in 2013 embarked on a journey to attract and recruit a workforce reflective of California's population. CalSTRS

Equal Employment Officer has been a partner and advisor to CalSTRS Diversity and Inclusion efforts. In light of this finding, CalSTRS will move up the pre-planned launch of employee resource groups to fully implement a Disability Advisory Committee within 90 days. Additionally, all CalSTRS staff has direct access to CalSTRS CEO via a secure, web based platform called "What Do You Think". When utilizing the platform, employees can choose to identify themselves or remain anonymous, and send the CEO questions, comments or concerns about any topic, including disability issues.

Finding 5- Sufficient Justification was Not Provided for All Personal Services Contracts

Response: The Teacher's Retirement Board has plenary authority over all CalSTRS administrative areas including contracts. Therefore, none of CalSTRS PSCs are subject to the Department of General Services (DGS) approval. CalSTRS program areas lacked a clear understanding related to the proper processing of the PSC justification form. CalSTRS Procurement Compliance Unit is working to create training materials and provide detailed samples of documentation required for PSCs. Additionally, CalSTRS Procurement Compliance Unit will complete a stratified sampling of submitted documents and request revisions as needed to meet requirements.

Findings 6-8 Supervisory Training Was Not Provided for All Supervisors, Ethics Training Was Not Provided for All Filers and Sexual Harassment Prevention Training Was Not Provided for All Supervisors

Reponses: CalSTRS has a mature and robust training program for all staff, which not only encompasses mandatory training, but offers a catalog of learning for staff of all levels within the organization, to support staff growth and development as well as fulfill regulatory requirements. CalSTRS did provide supervisor training, ethics training and sexual harassment prevention training. Unfortunately, individual employees did not complete required training, despite the extraordinary efforts of the department, which included but are not limited to planning and scheduling all trainings a year in advance, automatic enrollment for new supervisors into mandatory training, automatic enrollment in class offerings that are cancelled by attendees, electronic notification of mandatory training requirements, electronic reminders of mandatory training requirements, tracking of training completion and quarterly notification to Executive staff regarding the completion of mandatory training for CalSTRS staff. It is the opinion of CalSTRS this finding is not a failure of CalSTRS to provide training, but a failure of individual employees to complete training.

Finding 18- Leave Reduction Plans Were Not Provided for All Employees Whose Leave Balances Exceeded Established Limits

Response: CalSTRS is actively managing the unfunded liability associated with leave benefits over established limits. Twice a year, CalSTRS notifies managers with staff whose leave exceeds current limits, requesting a written reduction plan. CalSTRS Human Resources has assigned staff within Payroll and Benefits the task to monitor and track the receipt of reduction plans and provide status updates to our Executive staff on a quarterly basis in order to ensure compliance.

Finding 19- Incorrect Application of 715 Transaction

Response: CalSTRS took an in depth look at the single 715 transaction that was identified as out of compliance. It was discovered the 715 transaction was applied correctly; however, the Leave Accounting System (LAS) was not updated in conjunction with the transaction. Therefore, the employee received leave accrual they were not entitled. The issue has been since been corrected and training will be provided to all Payroll staff to ensure the Leave Accounting System is updated in conjunction with qualifying and non-qualifying pay periods.