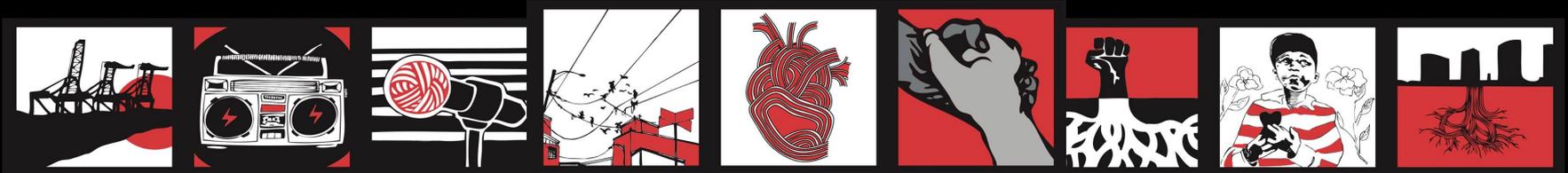




Special Board Meeting:

July 7, 2021

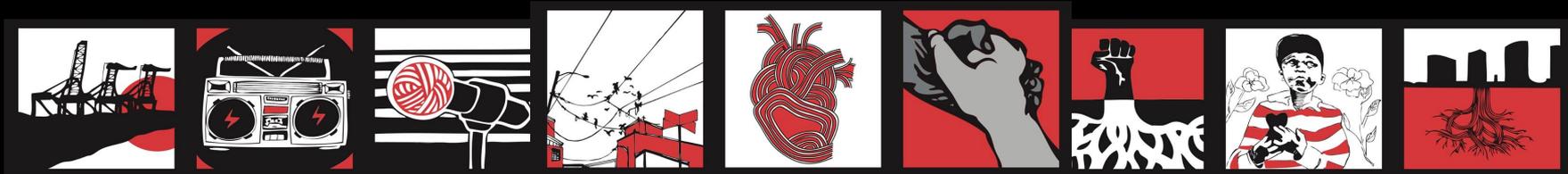




STRS Presentation - Background

How Did We Get Here?

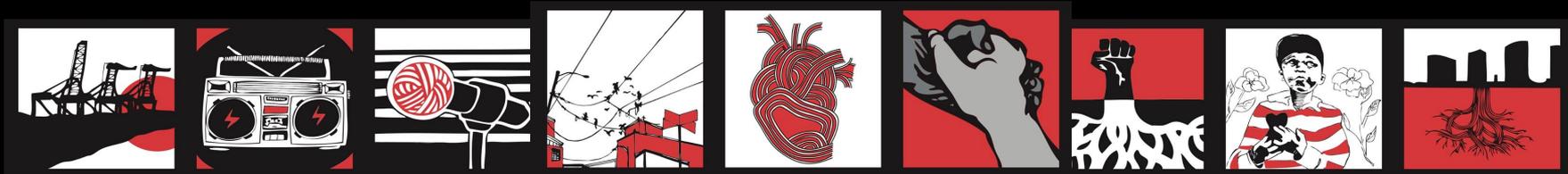
- What is STRS?
 - The **California State Teachers' Retirement System (CalSTRS)** provides retirement, disability and survivor benefits for California's prekindergarten through community college educators and their families. A portion of each enrollee's salary is withheld and paid into the retirement system. Employers are responsible for paying into the retirement system as well for every enrolled employee.
- Prior to June 30, 2018 OSA handled all financial operations in-house. In 2018 when OSA hired CSMC to handle finance and payroll, they advised OSA after the first submission of the payroll coversheet, that we had employees who should be in STRS and weren't.
- It was explained that in January 1, 2016 the STRS laws for eligibility changed so that anyone (with or without a credential) who taught 50% or more of a 1.0 teacher had to be in STRS. (This time period begins OSA's error. Prior to this point, employees were enrolled correctly according to representatives from STRS.)
- STRS placement per employee (prior to CSMC) was determined by members of OSA's fiscal operations team.



STRS Presentation - Background

How Did We Get Here - Continued

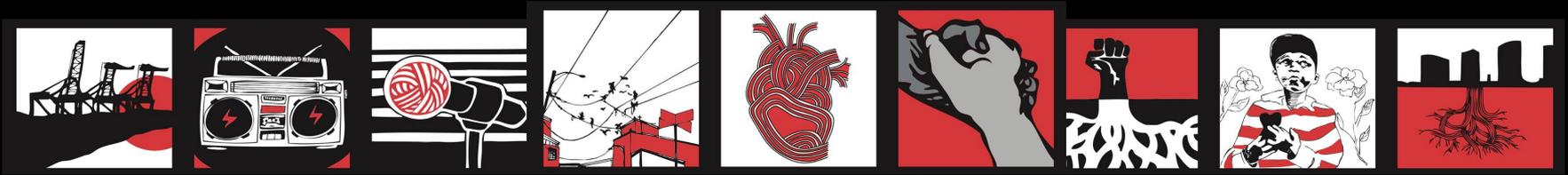
- STRS eligibility (50%) was defined as .8+ employees for both academic and arts teachers.
 - The determination was based on the number of classes an employee was teaching.
 - A full time employee works 40 hours.
 - A .8 employee teaches 20 class hours per week, so anyone below .8, based on the interpretation, was not required to be mandatorily in STRS.
- This was an inaccurate definition. The true definition is based on if the part time employee is earning 50% or more of a full time employee's salary. Our consensus is that this misunderstanding led to the error.
- This means that anyone .5 and above should be placed into STRS.
- Those employees should have been paying into STRS and not paying into Social Security.
- In August 2018, Mike Barr, Board Treasurer, was first notified of the error by OSA's CBO. At the time, the financial impact was estimated by the CBO to be in the \$180-\$200k range, based on Mike's best recollection. He informed Mike that he would determine next steps and options to minimize the impact to OSA while still meeting our obligations to staff.



STRS Presentation - Corrective Action

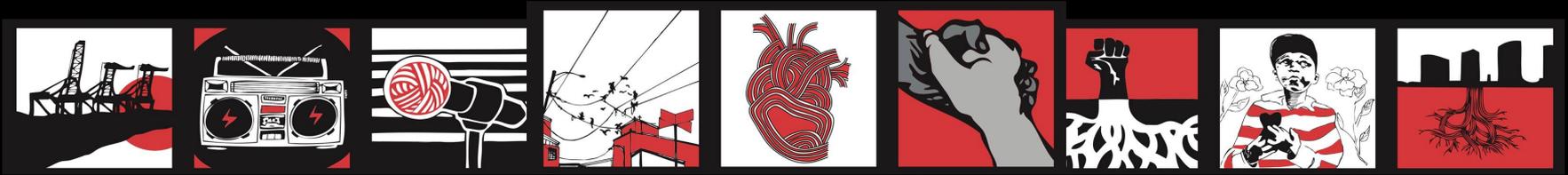
What steps did OSA take to correct this error?

- An internal payroll audit began in order to determine which employees needed to immediately be added to STRS for the 2018-2019 school year.
- In August of 2018 OSA's former Executive Director met with employees that were being put into STRS and told them the following:
 - STRS laws changed in 2016
 - They should have been put into STRS at that time
 - OSA would pay the employer and employee portion of the correction
 - OSA would attempt to recover the contributions back that were paid into Social Security



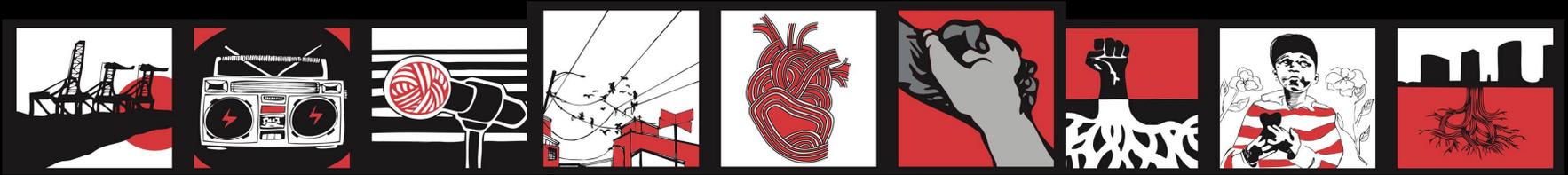
STRS Presentation - Corrective Action Cont.

- In October of 2020 following an email from 2 OSA employees about when their eligibility started, OSA checked with STRS and found the dates to be 2018. OSA's former CBO had reported that he was working with STRS to retroactively add members that he was made aware of by CSMC back to 2016, this in fact did not occur.
- Based on the above, OSA worked with STRS representatives from the Alameda County Office of Education to review every impacted employee to ensure that correct placement was done for every employee.
- A spreadsheet was created with each known employee that this impacted (current and former), offer letters and job duties were reviewed, and all pertinent information was sent to the Alameda County Office of Education.
- Work began to add all employees back to 2016 and not just 2018 when the error was first discovered.



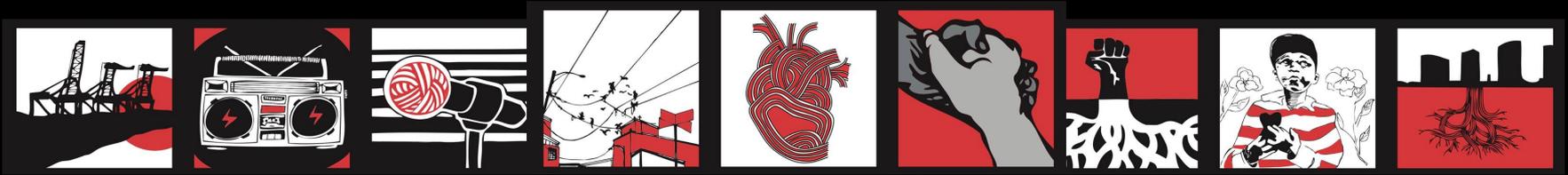
STRS Presentation - Finalizing Costs

- To the best of our knowledge all employees past and present have been identified that should have been put into STRS back to 2016 or their date of mandatory enrollment, if after 2016.
- Based on the analysis conducted by OSA, and reviewed by CSMC and STRS representatives, it was determined that this error impacted a total of 37 employees (current and former) who needed to be added into STRS at various times, many dating back to 2016.
- Once the review was completed by STRS at the end April of 2021, OSA began to investigate our requirements to pay to correct the STRS error.



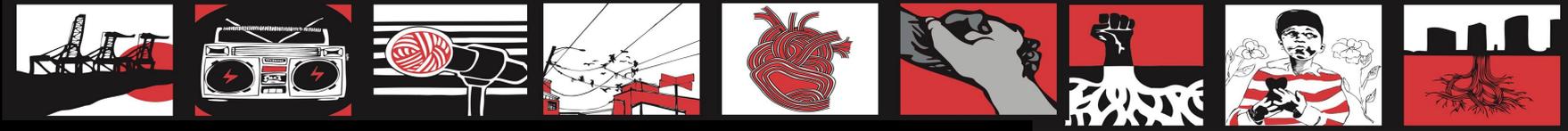
STRS Presentation - Finalizing Costs Cont.

- Meetings were held throughout the month of May to discuss with our legal team, CSMC, and representatives from STRS to determine the following:
 - OSA plans to correct the error for the employer portion as well as the employee portion as this was our error. Does the law agree that we should pay to fix the error on our end alone? **Yes. OSA was correct in planning to catch up the employer and employee portion.**
 - Do we have to correct the error on current and former employees? **Yes. OSA will need to correct the error on current and former employees. All employees have been identified and contacted to let them know about the corrective measures.**



STRS Presentation - Finalizing Costs Cont.

- Do we have to pay the portion to catch up the employee and employer portion all at once or can this be done through a payment plan? **The catch up will need to be paid all at once. The penalties and interest will be determined after the first payment is made. STRS may allow OSA to pay that in installments.**
- This was discussed in May, at finance committee meetings as well as at a board meeting to update the board on the STRS impact.
- Final confirmation of the exact total of \$1,278,554.16, the amount owed for employer and employee contributions, excluding penalties and interest, was sent to OSA on June 30th. COSATS was informed once a final debt amount was finalized to ensure that the information we provided was accurate, and that due diligence was done to confirm all details surrounding the error.
- This amount includes current and former employees based on the error beginning in 2016.



STRS Impact on our Budget

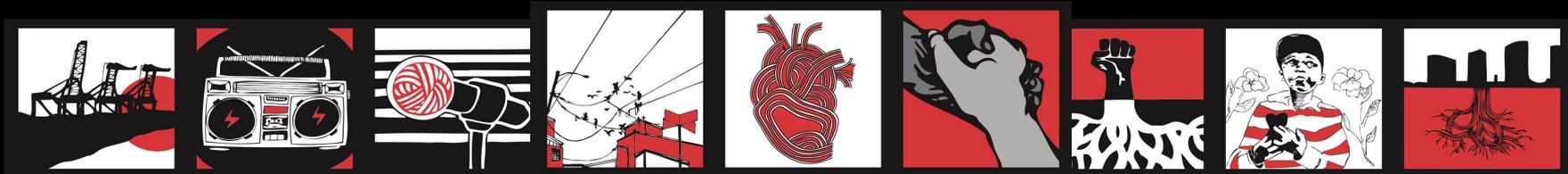
Oakland School for the Arts



		2021-22 Prelim		2022-23		2023-24	
	TOTAL ENROLLMENT		820	820	820		
	AVERAGE DAILY ATTENDANCE		787.2	787.2	787.2		
REVENUE	State LCFF Revenue	\$	7,646,224	\$	7,849,497	\$	8,091,142
	Federal Revenue	\$	140,555	\$	355,730	\$	142,404
	Other State Revenue	\$	1,793,389	\$	1,435,188	\$	1,669,510
	Local Revenue	\$	1,489,387	\$	1,614,387	\$	1,769,387
	TOTAL REVENUE	\$	11,069,555	\$	11,254,802	\$	11,672,443
EXPENSES	Certificated Salaries	\$	5,252,797	\$	5,440,695	\$	5,522,181
	Classified Salaries	\$	1,370,531	\$	1,298,939	\$	1,298,939
	Benefits	\$	1,752,570	\$	1,977,046	\$	1,993,556
	TOTAL PERSONNEL EXPENSES	\$	8,375,897	\$	8,716,680	\$	8,814,677
	Books and Supplies	\$	320,195	\$	320,195	\$	320,195
	Services and Other Operating Expenses	\$	2,170,342	\$	2,144,075	\$	2,663,491
	Capital Outlay	\$	183,324	\$	120,831	\$	32,170
	Other Outgoing	\$	-	\$	-	\$	-
	TOTAL OTHER EXPENSES	\$	2,673,861	\$	2,585,101	\$	3,015,856
	TOTAL EXPENSES	\$	11,049,758	\$	11,301,781	\$	11,830,533
SUMMARY	SURPLUS\ (DEFICIT)	\$	19,797	\$	(46,979)	\$	(158,090)
	% of LCFF Revenue		0.3%		-1%		-2%
	BEGINNING FUND BALANCE	\$	8,243,548	\$	8,263,345	\$	8,216,366
	ENDING BALANCE	\$	8,263,345	\$	8,216,366	\$	8,058,276

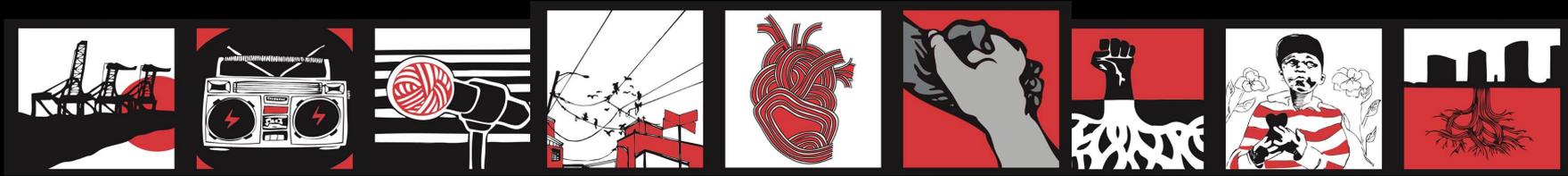
How does this payment impact OSA's operating budget?

- The STRS payment, as well as penalties and interest once determined, will not show up on OSA's operating budget as an expense. Due to the fact that this payment is for a prior fiscal year correction, the payment will be shown as a prior period adjustment. This will impact our starting asset balance for the 20-21 fiscal year that we just concluded, and will ultimately reduce our ending fund balances for fiscal years moving forward.



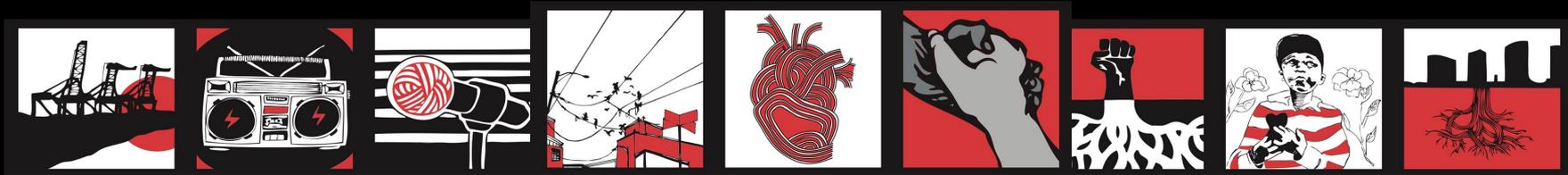
STRS Presentation - You May be Wondering:

- How will OSA correct this mistake and how does this payment impact OSA employees?
 - OSA will pay all costs associated with the back payments as well as the penalties and interest.
 - The catch up will increase the amount of contributions that are in each employees' STRS retirement accounts.
 - Impacted employees, past and present, will not have to pay anything out of their own pockets.
- Why was this error not caught by our external audit firm?
 - The external audit process does not include an individual review of all employees and their STRS enrollment. They are given a financial statement that includes summaries of salaries and benefits paid by the respective employee classification groups. That information is reviewed for accuracy against financial statements provided by OSA. External audits do not involve a granular look at individual employee STRS enrollments.



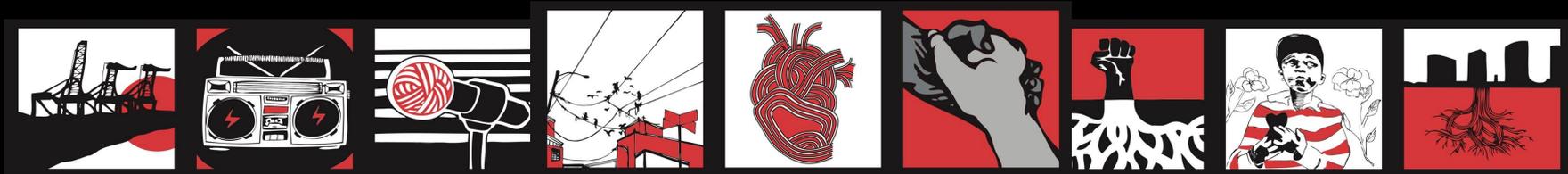
STRS Presentation - You May be Wondering:

- **Why did it take so long to correct this error after it was discovered?**
 - An analysis had to be conducted on every academic and arts teacher that was employed by OSA from 2016-2018. Detailed information had to be given to STRS pertaining to the employment agreement, salary, stipends, and job duties. Once this was given to STRS, they had to conduct their own review on multiple levels. OSA's legal team, CSMC, and STRS all required follow up meetings and discussions before the final magnitude of the error could be determined and corrective measures given to OSA.
- **How was this error not discovered by OSA prior to CSMC coming on board?**
 - OSA's payroll data was compiled by OSA's prior financial operating team. The highest level of internal review mistakenly applied the wrong standard.



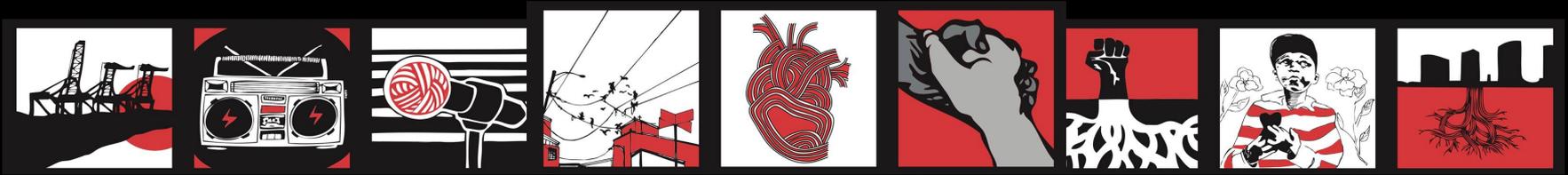
STRS Presentation - You May be Wondering:

- What measures has OSA taken to ensure that this type of error does not occur again?
 - Every time a person is hired at OSA a new hire sheet is required by CSMC. It details all of the information pertaining to their job title, classification category, and their FTE. Forms are also required that inform CSMC of the new hire's enrollment into STRS. CSMC reviews all forms and confirms with OSA after reviewing the documents whether all forms were completed correctly and whether or not STRS enrollment is required. All of this takes place prior to a new hire being placed into our HR system enabling them to be paid.
 - Every payroll period a coversheet with all payroll information, as well as the payroll register, is reviewed by the Accounting Manager and Director of Operations (Director of HR moving forward) to ensure that all STRS payments are recorded and paid accurately.
 - Proof of STRS contributions paid by OSA on behalf of their employees is sent to OSA by CSMC every time the payments are made.
 - The Director of HR and CSMC will both be responsible for monitoring and implementing any future changes to STRS eligibility requirements.



STRS Presentation - You May be Wondering:

- **Do all teachers have to be placed into STRS? Is OSA sure that there were no other teachers paying into Social Security instead of STRS?**
 - Employees with creditable job duties, credentialed or not, that are being paid 50% or more of a full time salary must be placed into STRS. As far as we know, OSA has corrected all employees that should have been paying into STRS and were paying into Social Security. Each payroll register is reviewed to ensure that no employee paying into STRS shows a Social Security deduction.
- **Has legal action been considered in addressing this matter?**
 - We are exploring all legal options pertaining to this issue.
- **How does this impact future employees?**
 - OSA will ensure all future employees are placed in STRS correctly if their job duties and FTE require such placement. The one-time financial payment will not directly affect future employees.



STRS Presentation - Rebuilding

- **OSA acknowledges** that the magnitude of this STRS error is alarming to our community.
- Team members have worked diligently behind the scenes to ensure that **all impacted teacher contributions that we are aware of have been corrected.**
- Processes have been put in place to ensure this type of error **never happens again.**
- OSA's will offer in-house **individualized meetings** to any past or present staff member to answer questions about their STRS contributions or benefits that needed to or should have been paid out.
- **We are committed to working together with our community to rebuild trust and ensure open communication on this subject.**