



Board of Administration

Agenda Item 8b

June 17, 2026

Item Name: Senate Bill 1038 (Laird) – CalPERS Employer Audit Notification

Program: Legislative

Item Type: Action

Recommendation

Adopt a **SUPPORT** position on Senate Bill (SB) 1038 (Laird), as amended April 29, 2026. SB 1038 assists the California Public Employees' Retirement System (CalPERS) to resolve open audit observations and improve collaboration between the employer and employee representatives throughout the audit resolution process.

Executive Summary

SB 1038 requires CalPERS to list on its website the name of the employer that is subject to an audit under the Public Employees' Retirement Law (PERL) and the purpose and scope of the intended audit prior to initiating an audit. The bill further codifies existing internal audit requirements to provide written notice to the affected employer of the purpose and scope of the audit and provide the employer with a copy of the final audit report. It also requires the affected employer to (1) forward the CalPERS audit notification and final audit report to the exclusive representative(s), if any, (2) provide CalPERS and the exclusive representative(s) a list of the names of any members, as specified, affected by the final audit, and (3) communicate to CalPERS that they have provided the CalPERS audit notification and final audit report to the exclusive representative(s).

Strategic Plan

This item supports the 2022-27 Stakeholder Engagement Strategic Goal to promote collaboration, support, and transparency by enhancing services, communication and education tools for CalPERS partners.

Background

CalPERS Audit Services

The CalPERS Office of Audit Services (OFAS) Employer Compliance Review program helps to ensure that CalPERS employers are in compliance with applicable sections of the PERL (Government Code section 20000 et seq.), the Public Employees' Pension Reform Act of 2013 (Government Code section 7522 et seq.), and Title 2 of the California Code of Regulations section 550 et seq. that prescribe reporting and enrollment procedures for retirement and health benefits.

OFAS performs an ongoing risk assessment to assist with the development of the CalPERS annual audit plan, as required by the Global Internal Audit Standards. The risk assessment identifies risk areas related to CalPERS' processes, controls and operations for employers who contract with CalPERS for retirement and health benefits. The risk assessment is updated continuously as OFAS receives information from CalPERS program divisions, employers, and the CalPERS ethics helpline.

Employer Compliance Review

Based on the risk assessment, CalPERS identifies relevant data available for the selected audit area and uses this information to select a sample of employers and/or members to be reviewed during the audit.

During the audit fieldwork, auditors schedule and conduct field visits with the identified employers. Auditors perform audit procedures to determine employer compliance with applicable legal requirements and obtain employer-supporting documentation as audit evidence for use in analyzing and evaluating the information being reviewed.

At the conclusion of audit fieldwork, a draft report is emailed to each employer included in the audit to communicate the audit results. Employers are provided with an opportunity to respond to the observations or other matters noted in the draft report and are given 10 business days to provide their response. Draft reports are considered confidential unless otherwise specified.

If an employer provides a response to the draft report, a summary of their response and OFAS' evaluation of their response will be included in the employer's final report, which will be in the appendix of one comprehensive final report that summarizes the audit results.

A copy of the final report is issued to the CalPERS Board of Administration and the affected employers.

Audit Resolution Process

The assigned CalPERS program area is responsible for working with employers to resolve findings identified in an audit conducted by OFAS. Upon receipt of the final audit report, the program area works directly with the employer to address the audit findings. The resolution process includes initial outreach to the employer, scheduling meetings as needed, and developing an audit resolution action plan. The program area monitors the employer's progress to ensure that corrective actions are implemented within 12 months, documenting key milestones and verifying compliance prior to submitting the audit for closure with OFAS.

The Quarterly Status Report (QSR) is presented to the CalPERS Risk and Audit Committee (RAC) on a quarterly basis. The QSR generally consists of an update on the number of audits

completed, observations identified, observations reported as closed/resolved by the CalPERS program division, open observations aged one year or more, and OFAS' review status of Requests for Validations submitted by the CalPERS program division for a particular quarter ended period.

Analysis

Specifically, SB 1038:

- Requires CalPERS to notify the subject of the audit in writing of the audit purpose and scope.
- Requires CalPERS to post on its website the name of the employer subject to the audit and the purpose and scope of the intended audit after the subject of the audit has been notified.
- Requires the affected employer, no later than 10 working days after receiving the notice of the intended audit, to forward the written notice of the intended audit, including the purpose and scope of the audit, to the exclusive representative or representatives of members that may be affected by the audit.
 - Requires the affected employer to communicate to CalPERS that they have provided the notice to the exclusive representative or representatives.
- Requires the audited employer to, within 60 days of receiving the final audit report, provide CalPERS and the exclusive representative with a list of names, as specified, of any members affected by the final audit report.
 - Requires that the member information, as specified, be treated as confidential by the exclusive representative.
- Requires CalPERS, upon issuance of the final audit report, to provide the audited employer with a copy of the final audit report.
- Requires the affected employer, no later than 10 working days after receiving a copy of the final audit report, to forward a copy of the final audit report to the exclusive representative or representatives of members that may be affected by the audit.
 - Requires the affected employer to communicate to CalPERS that they have provided the final audit report to the exclusive representative or representatives.
- Specifies that these provisions do not confer additional rights upon the exclusive representative, including, but not limited to, due process rights.

Timely Resolution of Audit Observations

While most audit observations are resolved within one year, others can take longer for several reasons, including the need to update or correct collective bargaining agreements. The requirement to notify exclusive representatives timely of proposed audits and final observations that may impact their members allows exclusive representatives, when necessary, to engage with employers at the earliest opportunity to assist with the resolution of audit observations. This type of early cooperation between employers and exclusive representatives could increase the timeliness of audit resolutions and reduce the number of CalPERS open audit observations older than one year.

This bill makes minor changes to the audit process and codifies others

As prescribed by state law, OFAS conducts internal audit activity under the Global Internal Audit Standards ([Standards](#)). OFAS also conducts employer compliance reviews in accordance with the Standards. As a result, OFAS already provides the audited employer with the purpose and scope of the audit, as well as the draft and final audit reports as required by the Standards. Also, as part of the audit process, the CalPERS program area requests from the audited employer a list of names of any member affected by the final audit report. This bill will codify these processes in the PERL. The new steps in the process are the requirements to post certain audit information on the CalPERS website and for OFAS to receive employer communication that employers have provided the CalPERS audit notification and final audit report to the exclusive representative(s).

Arguments in Support

According to the California School Employees Association,

“...The outcomes of these employer compliance audits can have important consequences for current public employees and retirees. For example, if an audit reveals that an employer inadvertently made an error in pay rate reporting, an employee or retiree may be required to reimburse CalPERS for the resulting overpayment and suffer a reduction in their monthly pension benefit. These mandatory repayments can amount to thousands of dollars depending on the length of time that the reporting error occurred.

...

“When school employees receive notice of pension benefit reductions and required lump-sum repayments, they turn to their union for assistance and answers. It is critical that public employee unions be made aware of audits that could adversely impact the promised pension benefits of active members and retirees at the start of the audit process. Timely audit notification allows public employee unions to properly advocate for our members and to proactively seek additional information regarding an audit and its effects. Public employees and their unions are important stakeholders in the audit process, and quick resolution benefits everyone – especially in cases where an ongoing payroll reporting error compounds over many months or years...”

Arguments in Opposition

None on file.

Budget and Fiscal Impacts

The only change to existing business practices is to post on the CalPERS website the name of the employer subject to the audit, along with the purpose and scope and for OFAS to receive employer communication that employers have provided the CalPERS audit notification and final audit report to the exclusive representative(s). Therefore, CalPERS expects the fiscal impact to be minimal.

Benefits and Risks

Benefits:

- Improves collaboration and communication between employers and employee representatives.
- Increases the likelihood of open audit observations being resolved earlier.

Risks:

- None.

Danny Brown, Chief
Legislative Affairs Division

Brad W. Pacheco
Deputy Executive Officer
Communication and Stakeholder Relations

Marcie Frost
Chief Executive Officer