



PR12:31
For Immediate Release:
9/5/2012

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Controller Releases Review of CalSTRS' Pension-Spiking Oversight

SACRAMENTO – State Controller John Chiang today released his [review](#) of the California State Teachers' Retirement System's (CalSTRS) ability to detect and prevent pension spiking. The review found CalSTRS does not adequately audit more than 1,900 reporting entities (including school districts), has missed opportunities to reduce instances of suspicious or unjustified salary increases and also failed to adequately use existing electronic systems designed to identify cases of pension spiking. It also includes recommendations to address each of those shortcomings.

"Starting with more rigorous auditing and better use of existing technology, CalSTRS must fortify its ability and resolve to crack down on those seeking unjust enrichment at the expense of their fellow educators and taxpayers," said Chiang. "These recommendations aimed at strengthening CalSTRS' anti-spiking efforts will complement the recently-enacted pension reform package and shut down this form of public theft."

The review specifically examined the electronic methods that CalSTRS uses to detect and prevent pension payments based on unusually large or excessive final compensation amounts, the auditing processes the system uses to oversee the state's school districts, and the efforts conducted by its newly-formed Comprehensive Review Unit during the review period of July 1, 2009, through June 30, 2011. The scope of the review was expanded to include records from three school districts, one community college district and one county office of education.

The review found that the CalSTRS audit program did not adequately detect or deter pension spiking. Although more than 1,900 agencies are a part of CalSTRS, the pension plan averages only 40 audits a year. During the review, CalSTRS was implementing a new stand-alone Compensation Review Unit charged with specifically detecting pension-spiking activity, which should result in more audits. However, the Controller said more auditors are needed to provide adequate oversight of the reporting by districts to CalSTRS.

The review evaluated pay increases granted prior to retirement to determine whether they were adequately approved, justified and documented. A geographically diverse sample of five local education reporting agencies was chosen: Pajaro Valley Unified School District in Santa Cruz County, the San Francisco and San Diego unified school districts, Foothill-De Anza Community College District in Santa Clara County, and the Los Angeles County Office of Education. Two of the five, or 40 percent, lacked documentation to justify pay increases granted to their employees immediately prior to retirement, such as board or executive approval or written performance evaluations.

For example, at the San Francisco Unified School District, one executive received a 26% pay increase six months prior to retirement, and another executive received a 20% increase one year prior to retirement. The district was unable to provide any documentation supporting those raises.

After similar and repeated requests were made to the San Diego Unified School District, officials ultimately responded that documentation supporting raises was missing from their files.

CalSTRS uses a system that electronically identifies instances in which an employee's monthly pay increase exceeds a certain percentage, or in which an employee's "special compensation" exceeds a specific dollar amount in one year. However, the review found that during the period evaluated, CalSTRS did not review, verify or follow up on pay increases that were flagged by the system. The Controller urges CalSTRS to review all of the cases that were flagged by the system, require the agencies to provide adequate documentation supporting those increases and better determine if the pay increase thresholds are appropriate to detect pension spiking.

The findings and recommendations from this review will be presented at the September meeting of the CalSTRS Audit and Risk Management Committee. The Controller also plans to perform a similar review of pension-spiking prevention measures at the state's largest pension system, the California Public Employees' Retirement System (CalPERS).

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