



# Audits & Risk Management Committee

## Item Number 3 – Open Session

**Subject:** Progress Report on the 2021 Independent Financial Statement Auditor's Management Letter

**Presenter(s):** Chairperson

**Item Type:** Consent Information

**Date & Time:** July 7, 2022 – 5 minutes

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**Attachment(s):** Attachment 1 – 2021 Management Letter Progress Report as of May 2022

**PowerPoint(s):** None

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### **PURPOSE**

The purpose of this item is to provide a status report on management's progress towards implementing the recommendations included in the Independent Financial Statement Auditor's Management Letter, dated October 11, 2021.

### **DISCUSSION/SUMMARY**

As part of the audit of CalSTRS' basic financial statements for the fiscal year ended June 30, 2021, Crowe LLP prepared a Management Letter that cited one deficiency of internal control. This is a recommendation to improve internal controls over financial reporting related to the completeness and accuracy of member data, based upon information received from contributing entities. The Audits and Risk Management (ARM) Committee reviewed the Management Letter at the November 2021 meeting.

Management is responsible for the design and implementation of internal controls over financial reporting. During an audit, the auditor may become aware of deficiencies in internal controls while obtaining an understanding of the entity and its control environment. A deficiency in internal controls exists when the design or operation of a control does not allow for management or staff, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. Any material and significant deficiencies are included in the Report on Internal Control over Financial Reporting. Deficiencies not considered significant

or material are included in a Management Letter, which is not required to be reported to the Board by the auditor. However, to promote transparency, CalSTRS' management presents the Management Letter for the Audits and Risk Management (ARM) Committee review.

The ARM Committee reviewed the Independent Auditor's Report on Internal Control Over Financial Reporting and Management Letter at the November 2021 meeting and management's first progress report at the March 2022 meeting. Audit Services is presenting a second status report that summarizes management actions towards implementing those recommendations. This is the final report of management's progress (Attachment 1). The independent financial statement auditor, Crowe LLP, will validate implementation of management's corrective actions and report the status to the committee at the November 2022 ARM Committee meeting.