

**2021 Independent Financial Statement Auditor’s Management Letter Progress Report
as of December 2021**

DESCRIPTION OF DEFICIENCY:

Member data is fundamental to financial reporting of contributions, benefit payments, and the Total and Net Pension Liability of the STRP. Internal controls are critical to ensure the completeness and accuracy of financial reporting as CalSTRS is dependent upon information from the contributing entities.

We commend management for the significant steps taken over the past several years related to the controls over member data, however, we continue to identify errors in the reported data that were not identified by CalSTRS’ internal control structure. Common findings include:

- Continued misapplication of Limited Term Enhancements-
- Prior year earnings reported in the current year unrelated to retro pay
- Unreported extra duty
- Extra duty reported incorrectly, e.g. as salary or special compensation
- Incorrect pay rate impacting the calculation of earnable compensation
- Incorrect pay code, e.g. 10 pay reported as 11 pay

RECOMMENDATION:

Due to the reliance on the contributing entities for the completeness and accuracy of active member data, it is probable that there will continue to be errors in reported data.

Crowe recommends that management continue to enhance its internal controls through development and/or improvement of data analytics to identify data anomalies and potential systemic errors based on historical experience, modify employer training strategies to improve effectiveness of training resulting in fewer reporting errors and continue to focus on employer readiness for the implementation of Benefit Connect, which includes functionality and file format regulations intended to reduce errors in reporting and provide immediate feedback to employers regarding potential errors upon submitting their contribution data. Management’s evaluation of potential improvements should always consider the cost/benefit of any new enhancements related to the risk of incorrect member data.

ORIGINAL MANAGEMENT RESPONSE TO RECOMMENDATION:

Management continues to improve in the areas mentioned in the recommendation. Specifically, CalSTRS continues to expand its employer training audience and channels for training, adding self-serve computer-based training modules on a learning management system. For fiscal year 20/21, CalSTRS provided 45 virtual training sessions that served 2,134 employer staff across 1,091 districts on the most critical employer reporting topics. The expanded training channels include seven new computer-based training modules for core Teachers’ Retirement Law topics. 158 employer partner staff representing 108 different employer reporting entities took these

modules with an average knowledge assessment score of 96%. CalSTRS also evolved the training material concepts by developing nine new job aids for the most important reporting laws, providing the employers with additional self-serve education opportunities.

CalSTRS continues to respond to ad-hoc inquiries from employers and will pilot a formal quality management program for those inquiries in fiscal year 21/22. Additionally, CalSTRS has instituted a practice of regular outreach to our largest reporting sources, conducting 64 conference calls/virtual meetings with our employer partners to build our relationships with them to learn their needs, answer requests and identify potential training opportunities.

To prepare employer partners for the new Secure Employer Website/BenefitConnect, CalSTRS completed all 92 Pension Solution Readiness Visits in fiscal year 20/21, introducing our report sources (county offices of education, direct reports and their payroll system vendors) to the Employer Readiness Environment that they will use to submit test contribution data into a test environment to prepare them for reporting in the new Secure Employer Website. CalSTRS plans to engage employers with webinars and additional information sessions during the project delay, ramping up again for full, formal training and readiness six to eight months before go-live.

As part of the Employer Reporting to Final Benefit project, a cross-functional team across seven business areas is investigating improved employer information, piloting programs to analyze member data prior to retirement, evaluating current laws and regulations related to common audit findings, and six-month follow-up after audits among other improvements and efforts directly related to accurate employer reporting. CalSTRS has started monthly meetings with business officials and superintendents to discuss these improvements and collaborate with that audience to find ways to get better training penetration to districts and charters in their counties.

CURRENT STATUS OF IMPLEMENTATION:

Management continues to focus on training and improving educational materials, and on process and regulatory improvements related to the Employer Reporting to Final Benefit project. Staff started piloting new processes to follow up on employer reporting six months after a district's audit, researched methods to analyze contribution data for active members to identify potential risk and implemented a pilot quality management program that will shift the most complex employer inquiries to a dedicated team and perform quality control of responses to other employer inquiries for consistency and adherence to standards. The Employer Services business began the pilot of the Quality Management program in January 2022. The effort will utilize existing staff to monitor the quality of responses to employer inquiries on common and complex topics. After evaluating the effectiveness of the pilot, management will request permanent resources to continue the program.

Additionally, in December 2021, staff began modeling an approach and potential resource requirements for reviewing members' accounts when they apply for retirement to reduce the risk of adjustments due to contribution reporting data changes after retirement. Management is also piloting expanded active-member data analysis, more frequent review of employer-approved edits in the Secure Employer Website and an effort to review a sampling of employers'

bargaining unit agreements/memoranda of understanding to increase awareness of what employers and their employees have bargained and how it could impact subsequent reporting of contribution data.

Employer training staff in Employer Services delivered 30 trainings from July to December 2021, serving more than 900 employer attendees. Staff have added new computer-based training modules to the learning management system and saw the number of users and represented employers increase by 150 and 56, respectively.

Management will continue to engage with employers to maintain and assess their readiness to use the new Pension Solution system during the project's delay. The Employer Readiness Environment has additional functionality and fixes that create a more production-ready environment for employers to test file submission.