

# 2023 Audit Services Audit Plan

Summarized below are the number of employer audits and internal audits to be performed by Audit Services, which includes preliminary objectives. Also summarized is a listing for consulting/advisory services, other audit activities, and audit management and administration responsibilities. In alignment with the internal auditing standards, Audit Services performs engagement-level risk assessments to finalize the scope of work and objectives for each internal audit activity.

## EMPLOYER AUDITS

Employer Audits perform audits to ensure compliance with CalSTRS Teachers' Retirement Law in areas such as:

- remuneration in addition to salary (special compensation)
- one-time bonus
- unused sick leave
- membership
- post retirement earnings

In September 2022, the Governor signed Assembly Bill 1667, which among other things, extends the response deadlines of draft reports by at least 30 days and may extend it by 45 days in many instances. A delay in the employer audit final report issuance will reduce the completed audits number. Therefore, Employer Audits plans to complete between 90 to 110 audits in calendar year 2023.

## INTERNAL AUDITS

Audits are placed in the respective primary branch. Additional branches may be identified as impacted during the engagement level risk assessment.

### Administrative Services Branch:

1. Cal Cards  
*Evaluate controls over Cal Card administration for adequacy and effectiveness.*
2. Headquarter Expansion – Closeout  
*Assess HQE project management process for project closeout.*
3. Procurement Services  
*Evaluate controls over procurement services for adequacy and effectiveness.*
4. Talent Recruitment & Retention  
*Assess controls over talent recruitment and retention practices for adequacy and effectiveness.*

5. Third Party Vendor Contract Compliance - Property Manager  
*Evaluate Property Managers' compliance with specific provisions of its agreement with CalSTRS.*

Benefits & Services Branch:

6. Disability Benefits  
*Assess controls over the disability benefits process for adequacy and effectiveness.*
7. Member Services  
*Evaluate controls over member services for adequacy and effectiveness.*
8. Service Retirement Benefits  
*Evaluate controls over the service retirement benefits process for adequacy and effectiveness.*
9. Survivor Benefits – Service Performance  
*Assess controls over the Survivor Benefits – Service Performance process for adequacy and effectiveness.*

Executive Branch:

10. Board Elections  
*Evaluate controls over and administration of the election process for adequacy and effectiveness.*
11. GRI Sustainability  
*Independent verification of value and statements in CalSTRS Sustainability Report.*

Financial Services Branch:

12. Benefit Disbursement  
*Assess controls over the benefit disbursement process for adequacy and effectiveness.*
13. Financial Statement  
*Annual audit of CalSTRS financial statements, including GASB 67 workload for the year ended June 30, 2023.*
14. Tax Compliance & Reporting  
*Assess controls over the tax compliance & reporting process for adequacy and effectiveness.*

General Counsel Branch:

15. Incident Response  
*Evaluate controls over the incident response process for adequacy and effectiveness.*
16. Information Security  
*Assess controls over CalSTRS information security for adequacy and effectiveness.*

Investments Branch:

17. Inflation Sensitive

*Assess controls over the inflation sensitive portfolio for adequacy and effectiveness.*

18. Investments Risk Assessment

*Perform an independent, objective risk assessment of the investment activities.*

19. Private Equity

*Assess controls over the private equity portfolio for adequacy and effectiveness.*

20. Risk Mitigating Strategies

*Assess controls over the risk mitigating strategies for adequacy and effectiveness.*

Technology Services Branch:

21. Information Technology & Information Security Risk Assessment

*Perform an independent, objective risk assessment of information technology and security.*

22. Path Forward – Technology

*Assess the adequacy and completeness of the path forward process over technology equipment.*

23. Pension Solution

*To be determined*

**CONSULTING/ADVISORY SERVICES**

Appeals

*Prepare material for administrative hearings and act as subject matter witness in audit appeals.*

ARM Committee and Management Requests

*Respond to ARM Committee and management requests for audit services.*

External Financial Statement Audit Follow Up

*Follow up on CalSTRS progress on the External Financial Audit and/or Management Letter management action plan.*

Internal Audit and External Contracted Audit Follow Up

*Follow up on internal audit and external contracted audit management actions.*

Pension Solution

*Participate in the Pension Solutions work group as Subject Matter Experts.*

Special Projects

*Respond to special internal and employer audit requests.*

## **OTHER AUDIT ACTIVITIES**

### TeamMate Champion

*Subject matter expert for TeamMate functionality and issues.*

### Board Document Development

*Analytics, design, and review of Board agenda items.*

### Continuing Professional Education & Training

*Obtain 40 required hours of continuing professional education per year.*

### Legislative Analysis & Review

*Participate on CalSTRS' legislation team and provide consultation and analysis on pending legislation.*

### Quality Assurance Improvement Program

*Continue to conduct a Quality Improvement Program and implement initiatives to ensure conformity with IIA Standards and leading practices.*

### Risk Assessment & Audit Plan

*Annual/continuous risk assessment for developing/updating the annual audit plan.*

## **MANAGEMENT & ADMINISTRATION**

### Administrative Support

*Provide administrative support services (budget, contracts, personnel, Board documentation, report distribution, etc.).*

### Appeals

*Prepare and review administrative hearing documents and act as subject matter witness in audit process.*

### Audit Staff Recruitment

*Staff recruitment and on the job training.*

### Enterprise-wide Cross Organizational Projects

*Supports organizational projects in an advisory capacity*

### Management & Supervision

*Management and supervision of internal and employer audit functions and personnel.*

## **PROFESSIONAL STANDARDS**

As required by Audit Services' Charter (Charter) and the *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), Audit Services presents the 2023 *Audit Plan* to the Audits and Risk Management Committee (ARM committee) for approval.

## **AUDIT SERVICES MISSION**

Audit Services' mission is to provide independent, objective assurance and consulting services designed to add value and improve CalSTRS operations. Audit Services assists CalSTRS in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve risk management, control, and governance processes effectiveness. To accomplish this, Audit Services:

- Provides to the ARM Committee and executive management a wide range of quality, independent internal auditing and consulting services;
- Performs an independent assessment of risk management, internal controls, and operating efficiency guided by professional standards and using innovative approaches;
- Supports CalSTRS efforts to achieve its goals and objectives through independent auditing and consulting services; and
- Maintains a dynamic, team-oriented environment, which encourages personal and professional growth.

## **AUDIT ORGANIZATION AND CHARTER**

Audit Services is independent of management and provides objective assurance and consulting services designed to add value towards achieving CalSTRS' strategic goals and enhance operational efficiency and effectiveness. To maintain independence and objectivity, the Chief Auditor functionally reports to the ARM Committee and administratively to the Chief Operating Officer.

The Internal Audit Charter authorizes Audit Services to perform auditing and consulting services of CalSTRS' governance, risk, and controls. Additionally, Audit Services conducts reviews of school districts, county offices of education, and any employer that has employees who may perform creditable service subject to coverage by CalSTRS. The Charter also defines reporting relationships, objective and scope of audit work, along with the roles and responsibilities of the Chief Auditor.

## **AUDIT PLAN SCOPE AND DEVELOPMENT**

The Audit Services Audit Plan covers the period from January 1, 2023, through December 31, 2023. The Audit Plan is designed to provide coverage of key risks, considering the existing staff and approved budget. Audit Services completed a risk assessment for the purpose of developing this Audit Plan of CalSTRS' operations and for employers, as required by the IIA Standards. The Audit Plan aligns with the CalSTRS Strategic Plan and incorporates management input, risk assessment results, and the enterprise risk management report. Proposed audits and audit objectives are designed to provide assurance that management has identified key risks, and that management is sufficiently mitigating those risks to an acceptable level.

## **ACCEPTABLE LEVEL OF RISK**

Although this Audit Services Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all CalSTRS operations or systems. Audit Services has tried to maximize the limited resources to provide reasonable coverage for activities believed to require the most attention based on risk assessment results. Management is responsible for determining an acceptable level of risk. If the Chief Auditor determines management has accepted a level of risk that may be unacceptable to the organization, the Chief Auditor must discuss the matter with senior management. If the decision regarding the matter has not been resolved, the Chief Auditor must communicate the matter to the ARM Committee.

## **QUALITY ASSURANCE**

Audit Services is required to comply with the IIA Standards, Code of Ethics, and Definition of Internal Auditing. The IIA Standards require an external quality assurance review every five years. The last external quality assurance review of Audit Services was performed in 2021. The Audit Services Audit Plan provides a provision for conducting an annual internal quality assessment review.

## **PLAN PROGRESS**

Interim changes to the Audit Services Audit Plan will occur from time to time due to changes in business risks, timing of CalSTRS' initiatives, and staff availability. Audit Services will report on the audit plan and progress against the plan to executive management and the ARM Committee. Amendments to the approved the Audit Services Audit Plan deemed to be significant (based on discussions with the executive staff and Committee chair) will be submitted to the ARM Committee for approval in advance.

## **FOLLOW-UP**

The IIA Standards require follow-up as part of each audit. The Audit Services Audit Plan includes time necessary to determine the status of resolving previous audit findings.

## **PROFESSIONAL ORGANIZATIONS**

Audit Services staff are members of several professional auditing and accounting organizations. These groups are excellent sources for obtaining information on auditing, accounting, business management, and other professional issues and concerns. The Audit Services Audit Plan anticipates staff training provided by the following organizations:

- Association of Public Pension Fund Auditors (APPFA)
- Institute of Internal Auditors (IIA)
- American Institute of Certified Public Accountants (AICPA)
- Association of Government Accountants (AGA)
- Information Systems Audit and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)

## **CERTIFICATIONS**

Audit Services staff have multiple certifications and/or licenses issued by sponsoring professional organizations. Audit Services staff are required to obtain Continuing Professional Education (CPE) each year to maintain certifications and /or licenses and remain up to date on professional knowledge and practices. The CPE hours provide the Audit Services staff with new and/or updated skills for performing audits. The Audit Services Audit Plan anticipates staff obtaining required CPE and training.