

December 15, 2023

Amy Tong, Secretary
California Government Operations Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

Dear Secretary Amy Tong,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the State Teachers' Retirement System submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

Should you have any questions please contact Julie Underwood, Chief Financial Officer, at (916) 414-1678, junderwood@calstrs.com.

GOVERNANCE

Mission and Strategic Plan

The California State Teachers' Retirement System (CalSTRS) administers a hybrid retirement system consisting of a traditional defined benefit plan (Defined Benefit Program), cash balance plans (Defined Benefit Supplement Program and Cash Balance Benefit Program) and a voluntary defined contribution plan (CalSTRS Pension2).

CalSTRS provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers from prekindergarten through community college and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans with CalSTRS as the administrator. The terms of the plans may be amended through legislation.

Under California Constitution, Article 16, Section 17, the Teachers' Retirement Board (board) has plenary authority and fiduciary responsibility for investment of moneys and administration of the system. It is composed of 12 members:

- Five members appointed by the Governor and confirmed by the Senate for a term of four years: one school board representative, one retired CalSTRS member and three public representatives.
- Four ex officio members who serve for the duration of their term in office: the State Superintendent of Public Instruction, the California State Treasurer, the California State Controller and the Director of Finance (who is appointed by the Governor and confirmed by the Senate).
- Three member-elected positions representing current educators.

The CalSTRS 2022-25 Strategic Plan was adopted by the board on March 4, 2022. The strategic plan provides overarching goals and objectives to guide our collective direction and

measures to enable our success. We will assess the effectiveness of our actions against these strategies quarterly and through the annual Strategic Plan Accomplishments Report to the board. CalSTRS establishes an annual business plan based on a board-approved multiyear strategic plan. The annual business plan includes a detailed road map with initiatives and activities to achieve our goals and objectives built on the foundation of CalSTRS' mission, vision and core values. The paragraphs that follow outline these components.

Our Mission

Securing the financial future and sustaining the trust of California's educators.

Our Vision

Your reward – A secure retirement

Our reward – Getting you there

Our Core Values

The CalSTRS core values are a set of attitudes, beliefs and behaviors that define CalSTRS and its employees.

- CUSTOMER SERVICE—We never compromise on quality as we strive to meet or exceed the expectations of our customers.
- ACCOUNTABILITY—We operate with transparency and accept responsibility for our actions.
- LEADERSHIP—We model best practices in our industry and innovate to achieve higher standards.
- STRENGTH—We ensure the strength of our system by embracing a diversity of ideas and people.
- TRUST—We conduct ourselves with integrity, acting ethically in every endeavor.
- RESPECT—We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty and courtesy.
- STEWARDSHIP—We recognize our fiduciary responsibility as the foundation for all decision-making.

Board Strategic Goals

The strategic plan has three goals with supporting objectives and measures of success.

Goal 1: Trusted stewards – Ensure a well-governed, financially sound trust fund.

- A. Achieve full funding of the Defined Benefit Program by June 30, 2046.
- B. Operationalize sustainable investment beliefs to create long-term value.
- C. Execute the CalSTRS Collaborative Model 2.0 phase of the continuum.
- D. Grow strategic relationships with policymakers, stakeholders and partner organizations.
- E. Enhance how risks are defined, viewed and managed.

Goal 2: Leading innovation and managing change – Innovate to grow resiliency and efficiency in service of our members.

- A. Implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.
- B. Grow capabilities and culture to support a strategic and innovation mindset.
- C. Enhance the customer experience to improve engagement and reduce effort.
- D. Explore advanced technology to securely gain business agility and enhance user interface experience.
- E. Innovate, streamline and automate processes to increase efficiency.
- F. Transform business processes and drive digital adoption.

Goal 3: Sustainable organization – Fully integrate a unified environmental, social and governance ethos in all we do.

- A. Shape a resilient, sustainable, blended workforce that reflects fully integrated diversity, equity and inclusion practices.
- B. Integrate and align ESG principles across the organization.
- C. Complete headquarters expansion and transition activities.
- D. Strengthen preparedness capabilities to address change and disruptions.

Control Environment

As previously mentioned, CalSTRS reports to the board. The board has exclusive control over the administration of the retirement system plans and the investment of funds, makes rules, sets policies, and has the authority to hear and determine all facts pertaining to application for benefits under the retirement system. CalSTRS staff provides regular updates on the administration of the pension system and the investment of assets to the board and its six committees.

CalSTRS requires regular reviews and updates of its policies. As part of that exercise, procedure and internal control documents are reviewed and updated periodically. As part of normal operations, many program areas also have quality assurance units that verify internal control effectiveness.

CalSTRS' senior management reports enterprise risk and risk management strategies to the board semi-annually. The board provides risk oversight generally and through various committees. Specifically, the Enterprise Risk Management team, working in conjunction with the Risk Champions Network and the Executive Risk and Compliance Committee, have the responsibility of monitoring the organization's internal control effectiveness as part of the overall risk management efforts. The following represent many of the activities CalSTRS performs to ensure its internal controls are effective and manage risks as designed.

- Annually, CalSTRS maintains risk and control matrices for critical processes. These matrices are designed to identify these processes, risks to the processes (including fraud) and the key control over the functions in the process flow.
- The Enterprise Compliance Services team works with various quality assurance units throughout CalSTRS to ensure critical areas meet legal and regulatory requirements as

- well as adhere to organizational policies.
- Annually, CalSTRS requires that all staff complete an online information security training.
 - CalSTRS Information Security and Enterprise Data Management offices provide active management for various cyber and data risk.
 - Staff are required to take online enterprise information management training to mitigate risk to CalSTRS' data every two years. New employees are also required to take enterprise information management training within their first 30 days of employment.
 - CalSTRS requires all new employees to complete Accountability and Internal Controls training within the first year of employment. The chief financial officer, director of enterprise risk management & compliance services or the enterprise risk management program manager attends these trainings as a guest speaker.
 - Annually, CalSTRS requires that all staff complete a computer-based Enterprise Risk and Compliance training.
 - Annually, an external auditor reviews CalSTRS internal controls as part of its audit of the basic financial statements. Additionally, CalSTRS' Audits Services division performs audits and reviews of various internal controls as part of completing its annual audit plan.
 - An external auditor reviews the internal controls of select business areas in the Investments Branch, reviewing the entire branch every three years.
 - Audit Services contracts with external audit firms to conduct investment and information technology audits due to the specialized knowledge and expertise, as required by the Standards.
 - Management addresses all concerns raised through internal and external audits as soon as possible. Management regularly reports its progress, addressing findings identified through the audit process, to the board's Audits and Risk Management Committee.

Management establishes and promotes CalSTRS' core values. Several ethics or whistleblower channels are available to all CalSTRS employees. The internal channel is the Compliance and Ethics Hotline. The external channel is the California State Auditor Whistleblower Hotline.

CalSTRS developed its current workforce plan covering fiscal years 2022-25 in September 2022. The plan reflects CalSTRS' commitment to growing an engaged, highly skilled and diverse workforce. In April 2022 CalSTRS transitioned to a blended remote/in-office work environment. As part of the new normal, CalSTRS continues to focus on improving this blended work environment. One area of focus will be changes in technology needs. In order to support the organization in meeting its strategic goals, a review of the way CalSTRS does business must be conducted, and technology solutions implemented.

In alignment with CalSTRS' mission, vision and core values, Human Resources supports the organization in meeting its goals through its most valuable resource—its PEOPLE. It is more efficient to retain a quality employee than to recruit, train and orient a replacement employee of the same quality. Other organizations are implementing full-time remote work and flexible scheduling options, which may lure employees away from CalSTRS. CalSTRS will need to continue to explore the use of various blended schedules to leverage this new flexibility to our advantage.

All employees are evaluated annually on performance based on CalSTRS' core values and core competencies. Accountability is one of our core values. As such, all new hires are required to take a classroom training on accountability and CalSTRS' core values overall.

Information and Communication

Reliable and Relevant Sources

CalSTRS Enterprise Strategy Management is responsible for organization-wide strategic management, the continuous improvement processes, research and development, corporate sustainability, and business planning and enterprise performance. This group has the responsibility to collect and communicate relevant and reliable information for operational, programmatic and financial decision making. CalSTRS' individual business areas work together to increase our ability to integrate performance data and conduct research to identify enterprise-wide issues used to inform the board and executive staff, to arrive at sound conclusions and to make educated decisions. Together, these functions are instrumental in meeting and reporting on strategic goals for the organization. Below are some of the channels used to share the reliable and relevant information collected by this group.

- The Operations Performance Review is currently a quarterly meeting attended by executives and directors, who provide direct and indirect support to CalSTRS' operational processes, to engage in an open and frank dialogue regarding achievement of key performance indicators at a reasonable cost as set by the Executive Team.
- The Customer Service Performance Review is currently a quarterly meeting attended by directors and executives, who provide direct services to CalSTRS' customers and stakeholders such as our members and their beneficiaries. The Customer Service Performance Review is designed to monitor progress on the board Key Performance Indicators and plan improvements related to the services provided to our members and other stakeholders.
- The organization's director-level managers generally meet monthly in the Director's Forum.
- The Quarterly Performance Review is currently a quarterly meeting attended by all management where information is shared on organizational level updates and hot topics in the prior quarter, and guidance is provided for action in future quarters.
- Management provides an annual report of accomplishments to the board.

Internal Communication

CalSTRS has several additional vehicles to share information regarding results of monitoring activities with management and the rest of the organization. To highlight some examples: the risk champions currently meet monthly, and the Executive Risk and Compliance Committee currently meets quarterly to share experiences or concerns amongst senior management and to review the quarterly enterprise risk matrix. In addition, management meets quarterly in leadership forums to provide training opportunities and venues to discuss current areas of concerns or sensitivity. CalSTRS' chief executive officer also provides information to staff through in-person and livestreamed Town Hall meetings as well as recorded videos. CalSTRS

utilizes all-staff emails and an intranet site to share information to staff at all locations.

The internal channels to report inefficiencies and/or inappropriate actions to CalSTRS management and other decision makers includes the Compliance and Ethics Hotline as well as submitting an innovation or change management idea directly to the Chief Executive Officer, Cassandra Lichnock, via the Ideas and Innovation Portal.

External Communication

CalSTRS constantly maintains and updates content on CalSTRS.com with information for our members and the public. We hold regular board meetings, which are streamed to the public via CalSTRS.com. Members of the public are welcome to attend the meetings in person.

CalSTRS externally releases several annual reports including the Annual Comprehensive Financial Report, Popular Annual Financial Report, Annual Budget Report, Summary Report to Members, Actuarial Valuations, Actuarial Experience Analysis and the Review of Funding Levels and Risks Report. Additional periodic reports include the Annual Investment Cost Report, Addressing Climate-Related Financial Risk Report, Diversity in the Management of Investments, and the Sustainability Report.

The California State Auditor Whistleblower Hotline is the state authorized external channel available to report inefficiencies and inappropriate actions of CalSTRS management and other decision makers. The hotline affords the person filing the complaint confidentiality as well as protection from suffering retaliation for having made the complaint.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the State Teachers' Retirement System monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Phillip Burkholder, Enterprise Risk Management Program Manager; Lynn Bashaw, Director of Enterprise Risk Management & Compliance Services; Julie Underwood, Chief Financial Officer; and Cassandra Lichnock, Chief Executive Officer..

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management efforts. The following represent activities CalSTRS performs to ensure its internal controls are effective and managing risks as designed.

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RISK ASSESSMENT PROCESS

The following personnel were involved in the State Teachers' Retirement System risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

Risk Identification

CalSTRS' Enterprise Risk Management policy requires each branch executive to perform an annual branch risk assessment. Risk champions from each branch lead their area's risk assessment. Each branch's risk assessment considers a variety of risks, including, but not limited to, errors, omissions and fraud. Beginning in 2020, the risk assessments are required to be recorded in a standardized tool and delivered to the Enterprise Risk Management team upon completion. The standardized tool includes columns to collect information on risks, inherent

and residual risk scores, internal controls, fraud, and compliance-related risks.

In addition to the branch risk assessments, the Enterprise Risk Management team uses an enterprise-wide approach in the identification of emerging and existential risks using information gathered from organizational partners, leadership interviews, board meetings and other credible information sources. Emerging risks are potential risks to the organization that have not been previously identified, were not yet significant enough to impact the organization or were dormant for an extended period. Their onset may be years in the future or immediate due to unforeseen changes. CalSTRS recognizes that emerging risks' probability might vary and may have a high impact that threatens meeting our business objectives.

Existential risks are potential risks that would require a significant and immediate shift in strategy and how CalSTRS administers the fund for members. CalSTRS recognizes that existential risks have a very low probability but would result in an extremely high impact on how we currently do business.

All of these risks are shared and discussed at the Risk Champions Network meetings, which is composed of representatives from each branch of the organization. The Risk Champions Network recommends which risks should be considered at the enterprise level and what risks should be considered as emerging and existential risks on the emerging risk universe map. The Enterprise Risk Management team, with input from the risk champions, compiles the quarterly risk matrix, the emerging risk universe map, and heat map and presents the results of this process to the Executive Risk and Compliance Committee, which currently meets quarterly. The Executive Risk and Compliance Committee has final authority over which risks are recorded and tracked in the enterprise level matrix and board reports. Once the Executive Risk and Compliance Committee has determined what risks require management at the enterprise level, they design mitigation strategies and allocate the necessary resources. CalSTRS management report enterprise level risks semi-annually to the board in open session.

Risk Ranking

Currently CalSTRS organizes risks into 10 risk categories: Pension Funding—Investments, Pension Funding—Actuarial, Pension Funding—Contribution Rates, Pension Administration, Financial Reporting, Information Security, Operational, Reputational, Transformational Change and Third Parties. Each of the 10 risk categories contains multiple sub-risks. The sub-risks are scored using three metrics: impact, probability and velocity. Each metric is based on a five-point scale with specific criteria defining each level. Risks are evaluated both inherently (without internal controls in place) and residually (after internal controls are in place).

The three metrics are combined in a formula—probability plus velocity times impact—to calculate a single risk score based on a 50-point scale. Risk scores are divided into five levels based on the score value: very high (41-50), high (31-40), medium (21-30), low (11-20) and very low (1-10). Each sub-risk is also given a weighted percentage within each risk category. Finally, the 10 risk categories are plotted on a heat map using a calculation of all the sub-risk scores and prioritization weights to show overall priority and scale. The heat map placement is reviewed by the Executive Risk and Compliance Committee before presentation to the board.

RISKS AND CONTROLS

Risk: Disaster Recovery/Business Continuity

There is a risk that CalSTRS may not be able to quickly and/or fully recover business operations in the event of a disaster, which could result in a delay in benefit payments, business operations disruption and/or missed investment opportunities.

Control: Business Continuity Functional Exercises

Continue to maintain Business Continuity (BC) /Disaster Recovery (DR) Plans and perform annual exercises.

Control: Technology Recovery Plan

Migrate eligible on-premise and vendor hosted applications to the CalSTRS cloud solution.

Decommission the migrated systems and applications from on-premise data center and eligible vendor environments.

Risk: Financial Reporting

Information received from subsidiary systems is recorded incorrectly in the general ledger, which could result in the basic financial statements being materially misstated and the external auditors issuing a modified opinion.

Control: Financial Statements

Monthly reconciliation of significant accounts, Appropriations, Cash, Receivables, Liabilities, Fixed Assets, Contributions, Benefit Expense and Investments to ensure accurate financial reporting.

Regular analyses of multiple financial reports as additional internal control measures.

Consistent reconciliation of general ledger balances to subsidiary systems and information.

Conduct quarterly review of the results as presented on CalSTRS' basic financial statements.

Administration of CalSTRS' tax-exempt lease revenue bonds by utilizing a bond trustee and engaging and consulting with other bond advisors with requisite public finance and tax expertise, such as bond counsel, disclosure counsel, municipal advisors, dissemination agents and arbitrage rebate consultants.

Establishment of a robust internal control structure to ensure the fair value measurement of private asset investments, and the related disclosure of the methods used for those measurements within the fair value leveling hierarchy, are presented in the basic financial statements in accordance with Generally Accepted Accounting Principles.

Risk: Funding Risk

The risk that the Teachers' Retirement Fund may not achieve full funding by 2046 in accordance with the funding plan as a result of below target investment returns, long-term actuarial experience differing from assumptions or the inability or unwillingness to appropriately adjust contribution rates.

Control: Actuarial Monitoring & Reporting

Monitor plan experience as part of annual report to the board reviewing CalSTRS funding levels and risks.

Monitor plan experience as part of annual actuarial valuation.

Conduct regular experience studies (generally conducted every four years).

Conduct data validation and data quality reviews.

Monitor demographic trends as part of annual actuarial valuation process. Conduct an external actuarial review (generally conducted every five years).

Conduct an internal actuarial review (conducted every year).

Control: Complex Investment Environment

Recruit and retain well-qualified staff with a diverse range of skills.

Continuously engage with our institutional partners and the academic community regarding best practices in risk management. Review suitability and implementation of best practices at CalSTRS.

Deploy cross-functional/asset class teams with a wide range of expertise and knowledge to review new tools and strategies prior to implementation.

Control: Contribution Rate

Closely monitor funding levels and adequacy of contributions through ongoing monitoring of plan experience, focusing on investment performance, size of the California teacher population and member longevity.

Reporting progress to the legislature every five years on the funding plan per Government Code.

Formerly report to the board on the progress of the funding plan as regularly scheduled twice a year—once in the spring through the actuarial valuation of the Defined Benefit Program and once in the fall through the annual review of CalSTRS Funding Levels and Risks report. Report to the board as needed through other board meetings, offsites and communications.

Confer with relevant stakeholders concerning contribution and liability information.

Conduct ongoing education for board members on the CalSTRS Funding Plan and the importance of full funding through the presentation of the annual actuarial valuation reports and the Annual Review of Funding Levels and Risks report.

Control: Investment Return

Coordinate the timing of the asset/liability study and experience study to ensure that the two are in lockstep and that the actuarial investment assumptions reflect the asset allocation policy. Ensure that long-term allocation targets are implemented consistent with board-approved policy.

Continuously oversee and monitor fund and asset class strategies and positions using risk management tools and platforms designed for the unique nature of the underlying securities.

Monitor costs and operate the system in an efficient and cost-effective manner to reduce the drag on fund performance.

Risk: Information Security

The absence of proper Information Security Program management and a lack of employee security awareness could result in an information security breach or incident at CalSTRS.

Control: Compliance

Establish information security policies to ensure security requirements, controls and responsibilities are defined.

Ensure an auditor conducts the Annual Financial Statement Audit (June).

Maintain the Incident Response Plan.

Conduct annual Information Security Office (ISO) compliance assessments on adherence to policies and standards (July-June).

Control: Monitoring

Conduct an annual Independent Cybersecurity Assessment.

Conduct ISO internal audits related to cybersecurity.

Stay current with security threats, zero-day attacks and industry trends.

Validate CalSTRS' cyber-fraud detection and alert systems, data collection rules and procedures.

Stay current with cyber-fraud threats and attack trends.

Implement cyber-fraud tools as necessary.

Control: Staff Education

Expand and enhance awareness of information security.

Provide an annual security awareness training course for all employees.

Ensure all employees sign the CalSTRS Confidentiality, Non-Disclosure and Acceptable Use Agreement form annually.

Continue to educate new hires in virtual and in-person Welcome Aboard sessions.

Simulate phishing exercises quarterly.

Educate the hybrid workforce by providing regular education on approved resources, acceptable use of technology and secure computing practices.

Risk: New Pension Administration

The risk that CalSTRS is unable to ensure accurate and timely benefits due to the aged pension administration system's failure to pay benefits timely, incomplete, inaccurate and late employer reporting, or the loss of mainframe-knowledgeable staff while the new pension administration system is becoming operational.

Control: Maintain Legacy Pension System

Follow the CalSTRS System Development Life Cycle (SDLC) methodology and processes, which contain appropriate internal controls related to the implementation of legacy pension system (START) application changes.

Ensure a roll-back plan is included for all START system change requests. Staff will utilize roll-back plans to restore the system to prior state in cases where implementation of an application change is unsuccessful.

Conduct disaster recovery (DR) exercises at California Department of Technology and Quest to validate DR solutions are operational.

Conduct a monthly Allowance Roll Regression Test to confirm the monthly process to calculate benefit recipient payments and deductions is operating as expected before the production run.

Monitor daily START batch jobs and reports to assure successful runs as well as on-going monitoring of the START technical environments to assure proper systems operations.

Continue providing monthly reports to division management.

Suspend significant system enhancements to START.

Find and provide additional incentives to maintain and retain existing staff resource levels for maintenance and required operational updates of START.

Implement business practices and controls required to accurately and efficiently manage benefits and services. Reduce use of overrides in the system, where appropriate.

Perform additional payment review processes to identify outliers.

Control: Project Management

Complete data preparation analysis project, define conversion policies and approach for identified data anomalies, and complete pre-conversion data cleansing.

Actively administer new pension administration system (Pension Solution) risk mitigation strategies as outlined in the Risk Mitigation Log.

Utilize Independent Project Oversight (IPOC) and Independent Verification and Validation (IV&V) consultants.

Establish and monitor requirements for key staff on the project.

Continue the analysis of needed positions and skill sets.

Actively work risk mitigation log to identify and resolve identified risks.

Meet as needed to discuss any change requests using the established Change Control processes.

Communicate information to all impacted areas, using various communication methods (emails, meetings, blogs, decision briefs, etc.).

Respond to feedback from cross-functional team resources and establishes a cross-collaboration weekly project meeting in Q4 to help identify impacts across activities.

Control: Project Oversight

Follow the Project Governance Plan.

Maintain consistent reporting of current status to the board and executives.

Control: Stakeholder Acceptance

Provide training and development for technical staff, impacted users and employers for implementation.

Perform Change Readiness Assessments for staff and employers.

Incorporate implementation of recommendations from readiness assessments and best practices from Enterprise Transition Planning consultants.

Continue efforts to increase awareness and desire for staff and stakeholders throughout the project lifecycle.

Increase the change leadership competency by providing change management training, tools and resources to business area leadership teams.

Provide training on systemic audit findings.

Risk: Reputational

The risk of reputational damage to CalSTRS caused by external or internal factors that could result in members, stakeholders and/or the public losing confidence in CalSTRS as a respected fiduciary of public funds.

Control: Ethical Tone

Set a strong ethical tone for the organization.

Conduct annual training of board and staff on ethics and fiduciary responsibilities.

Monitor CalSTRS Compliance and Ethics Hotline.

Control: External Communication

Require early identification of problems and development of mitigation strategies.

Monitor media and political environment for inaccurate information and correct whenever possible.

Control: Headquarters Expansion Project

Engage Authorities Having Jurisdiction (AHJs) in regular dialogue to educate building plan reviewers on HQE project and reduce confusion related to building design.

Develop alternate construction schedules to condense latter construction durations and reduce overhead costs.

Maintain governance structure for approval of all potential project costs and change orders.

Control: Headquarters Leasing

Continue to engage the services of a commercial real estate broker to broadly market the space.

Engage with city and state entities to network and develop tactics to broadly market the space.

Provide status updates to the board via the CEO report.

Control: Pension Solution Project

Report to the board and management authority for availability of funds (i.e., annual spending plan).

Integrate lessons learned from other projects of similar size and complexity.

Utilize change management and transition management consultants.

Utilize Independent Project Oversight (IPOC) and Independent Verification and Validation (IV&V) consultants.

Provide regular project updates to stakeholders (EAC, CAC) and key external decision makers (sister state agencies, legislators) and identify other opportunities to share updates.

Control: Sustainability

Require early identification of problems and development of mitigation strategies.

Continue to allocate capital to investments that deliver financial performance while creating positive environmental, social and governance outcomes and continue to use our influence as a significant global investor to promote sustainable business practices and public policy.

Continue to refresh net zero communications and outreach plan.

Risk: Third Parties

The absence of a third-party risk management program governance could result in duplication of efforts, assurance gaps and lack of due diligence performed, which could result in operational disruption, financial loss, reputational damage, compliance violations or failure to reach strategic goals.

Control: Program Governance

Establish governance structure for CalSTRS Third-Party Risk Management Program.

Implement the Third-Party Risk Management Policy.

Maintain current decentralized third-party risk management activities as the program is developed.

Implement software to manage third-party risk.

Develop a third-party classification structure that defines risk tiers with clearly outlined due diligence and controls necessary for each level.

Develop a standardized due-diligence checklist for each classification tier to be used when evaluating third parties. The checklist should include items such as pre-award background checks, evaluations of third party's reputation and financial health, evidence that requirements can be met and review of Service Organization Control (SOC) report where appropriate.

Define which vendors require SOC I or II reports.

Risk: Workforce

The risk that CalSTRS lacks the ability to meet critical business functions or to maintain service levels due to recruitment challenges, lack of staff engagement, potential loss of subject matter experts, staff or leadership turnover, execution of key workforce projects, or the ability to support the work location of staff.

Control: Recruitment

Continue to enhance recruitment strategy to attract a fully diversified workforce.

Acquire temporary positions to support knowledge transfer transition gap.

Control: Retention

Provide training and development, job shadowing or rotational assignment opportunities.

Utilize the Leadership Development Program.

Promote staff development academies and series.

Support the manager onboarding strategy for leadership positions.

Provide ongoing diversity and inclusion (D&I) training and promote awareness of the program.

Exhibit flexibility and responsive business management plans to shift resources and workload, where needed.

Control: Succession Planning

Continue identifying mission critical functions and business knowledge loss and determine who will be the back-up.

Monitor organization service level through organizational performance reviews.

Risk: Workplace Safety

CalSTRS may not establish or maintain the proper health and safety strategies, measures, training, etc., resulting in compromised employee health and safety.

Control: Security, Health & Safety

Provide OnDemand optional safety training available to all staff via HRLink.

Manage and oversee access to all CalSTRS facilities.

Continue to enhance employee wellness program, which supports employees while working at CalSTRS facilities or remotely.

Continue performing annual fire drills and training for the building emergency response team (BERT) at all CalSTRS facilities.

Follow current requirements as provided by various state and local health authorities such as CDC, CalOSHA, CDPH and CalHR, or health jurisdictions for the county where a CalSTRS facility is located, and adjust for any new recommendations, including the option to exercise a more conservative approach.

CONCLUSION

The State Teachers' Retirement System strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Cassandra Lichnock, Chief Executive Officer

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency