



# **Audits & Risk Management Committee**

## **Item Number 2 – Open Session**

**Subject:** Approval of Minutes of the November 4, 2021, Audits and Risk Management Committee – Open Session

**Presenter(s):** Chairperson

**Item Type:** Consent Action

**Date & Time:** March 3, 2022 – 0 minutes

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**Attachment(s):** None

**PowerPoint(s):** None

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### **PROPOSED MINUTES**

**Teachers' Retirement Board –Audits & Risk Management Committee Meeting**

**November 4, 2021**

**OPEN SESSION**

**LOCATION: Web Conference**

#### **COMMITTEE MEMBERS PRESENT**

Betty Yee, State Controller, Chairperson

Joy Higa, Vice Chairperson

Karen Yamamoto

Gayle Miller, representing the Director of Finance, Keely Bosler

Frank Ruffino, representing the State Treasurer, Fiona Ma

Blake Johnson, representing the State Superintendent of Public Instruction, Tony Thurmond

#### **OTHER BOARD MEMBERS PRESENT**

Denise Bradford

Lynn Paquin, representing the State Controller, Betty Yee

#### **STAFF PRESENT**

Cassandra Lichnock, Chief Executive Officer

Christopher Ailman, Chief Investment Officer

Brian J. Bartow, General Counsel

Lisa Blatnick, Chief Operating Officer  
Ashish Jain, Chief Technology Officer  
Melissa Norcia, Chief Administrative Officer  
Bill Perez, Chief Benefits Officer  
Teresa Schilling, Chief Public Affairs Officer  
Julie Underwood, Chief Financial Officer  
Shifat Hasan, Director, Investment Performance & Compliance  
April Wilcox, Director, Investment Services  
Lucy Arbuckle, Director, Accounting  
Art Martinez, Director, Financial Planning, Accounting & Reporting  
Larry Jensen, Chief Auditor  
Cheryl Cervantes Dietz, Director, Enterprise Compliance Services  
Roseanne Oyoung, Supervising Management Auditor, Internal Audits  
Jeff Zimmer, Director, Member Account Services  
Rick Reed, System Actuary  
David Lamoureux, System Actuary  
Trevor Young, Counsel

**OTHERS PRESENT**

Dr. Robert Yetman (Audits and Risk Management Committee Financial Expert)  
Jen Aras, Crowe LLP  
Kevin Smith, Crowe LLP  
Jennifer Baker, CalRTA  
Dana Dillon, CTA/NEA Retired  
Peter Morse, FACCC  
Kevin Welch, CTA  
Susie Chow, UTLA-Retired  
Doug Orr, CFT  
Pat Geyer, CalRTA

A quorum being present, Controller Yee called the Open Session meeting of the Audits and Risk Management Committee meeting to order at 2:33 p.m.

**I. APPROVAL OF COMMITTEE AGENDA (Item 1)**

The committee removed Items 3 and 4 from the consent agenda to provide an opportunity to discuss the reports.

**MOTION** duly made by Ms. Higa, seconded by Mr. Ruffino, and carried to approve the amended Committee Agenda by unanimous consent.

Members Voting	Aye	Nay	Abstain
Ms. Higa	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

**II. APPROVAL OF MINUTES FOR THE JULY 9, 2021, AUDITS AND RISK MANAGEMENT COMMITTEE MEETING – OPEN SESSION (Item 2)**

The committee identified revisions to the minutes and directed staff to make these changes.

**MOTION** duly made by Ms. Miller, seconded by Ms. Yamamoto, and carried to approve the revised minutes of the July 9, 2021 Audits and Risk Management Committee Meeting – Open Session by unanimous consent.

Members Voting	Aye	Nay	Abstain
Ms. Higa	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

**III. ANNUAL REPORT OF BENEFIT PAYMENT MODIFICATIONS FOR FY 2020-21 (Item 3)**

The committee received the Annual Report of Benefit Payment Modifications for Fiscal Year 2020-21. The committee discussed the benefit modifications resulting in both underpayments and overpayments and inquired about the largest adjustments that occurred during the fiscal year.

**IV. 2021 INTERNAL AUDIT PLAN PROGRESS REPORT (Item 4)**

The committee received Audit Services' 2021 internal audit plan progress report, which included an overview of Employer Audit results as of October 14, 2021 and Internal Audit results. The committee discussed the completion of 96 of the 106 employer audits in the plan, including 15 full-scope audits and 81 limited-scope audits. The committee discussed the sampled and systemic members affected by employer audits, and whether there was data on the numbers of retired members compared to active members affected by the audit findings. The committee discussed the internal audits issued this reporting period, and the status of findings that were in progress from prior issued internal audit reports.

**V. CALSTRS INDEPENDENT FINANCIAL STATEMENT AUDITOR REPORTS FOR THE YEAR ENDED JUNE 30, 2021 (Item 5)**

**a. Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information for the Year Ended June 30, 2021**

The committee received the report for the audit of CalSTRS Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information for the Fiscal Year Ended June 30, 2021 from Ms. Aras and Mr. Smith of Crowe LLP. The report included the Independent Auditor's Report; the Auditor's Communication to Those Charged with Governance; and the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

The committee discussed the auditor's report and the accompanying financial statements of CalSTRS, as well as how the audit process had been affected by the pandemic. The committee also discussed the auditor's opinions from the report. The committee heard from Dr. Yetman regarding the strengths and limitations of audits and the importance of internal controls. The committee and Dr. Yetman discussed and applauded the management and staff for their diligence and cooperation with the audit.

**b. Other Pension Information – State Teacher's Retirement Plan for the Year Ended June 30, 2021**

The committee received the report for the audit of CalSTRS Other Pension Information – State Teacher's Retirement Plan for the Year Ended June 30, 2021 from Ms. Aras and Mr. Smith of Crowe LLP. The report included the Independent Auditor's Report; the Auditor's Communication to Those Charged with Governance; and the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

The committee discussed the role of the external auditor with respect to this report and the auditor's findings. The committee discussed the auditor's observations with respect to internal controls over the Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity of the State Teachers' Retirement Plan for the year ended June 30, 2021.

**MOTION** duly made by Ms. Miller, seconded by Mr. Johnson, and carried to accept the independent financial statement auditor reports from Agenda Items 5a and 5b, and adopt the proposed resolution in Attachment 4 of Agenda Item 5a.

Members Voting	Aye	Nay	Abstain
Ms. Higa	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

**VI. 2021 MANAGEMENT LETTER (Item 6)**

The committee received the Management Letter for the year ending June 30, 2021, which was prepared by Crowe LLP, and which outlines deficiencies in internal controls that are not considered significant or material. The committee heard from Mr. Jensen about the prior deficiencies in internal controls that had subsequently been addressed by CalSTRS management. The committee discussed the control deficiency regarding the completeness and accuracy of active member data. The committee heard about the steps CalSTRS management is taking to address the deficiency, including the creation of the Employer Reporting to Final Benefit Project and the additional training that would be offered to employers. The committee discussed the importance of addressing and remedying issues with active member data and heard from Dr. Yetman that this will be a continuing issue due to the number of employers reporting to CalSTRS and the complexity of the law.

**VII. 2022 ENTERPRISE COMPLIANCE SERVICES PLAN (Item 7)**

The committee received the Enterprise Compliance Services' 2022 Compliance Plan from Ms. Dietz. The committee discussed the integrated risk assessment process that identified the risk priorities for 2022 and the importance of reviewing third-party contract to ensure it meets CalSTRS' standards. The committee heard from Mr. Bartow regarding collaboration between the General Counsel's Office and Enterprise Compliance Services to analyze contract risks and strengthen vendor oversight. The committee also discussed how delays in implementing the Pension Solution project could affect the project's risk profile.

**VIII. 2022 INTERNAL AUDIT PLAN (Item 8)**

The committee received Audit Services' proposed 2022 Internal Audit Plan, which outlines the assignments to be carried out and their respective priorities, provides an overview of Audit Services' mission, scope of work, independence and objectivity, and allocation of resources. The committee heard from Mr. Jensen how the risk factors used by Employer Audits had changed from the previous year, and the changes in the number of employers identified with each risk factor. The committee discussed the internal audits that were currently in progress and heard from Dr. Yetman about the internal audits focusing on the Headquarters Expansion Project.

**MOTION** duly made by Ms. Higa, seconded by Ms. Yamamoto, and carried to approve the 2022 Internal Audit Plan.

Members Voting	Aye	Nay	Abstain
Ms. Higa	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

**IX. REVIEW INFORMATION REQUESTS (Item 9)**

Pursuant to item 3, the committee requested additional information regarding adjustments made to ongoing benefits compared to adjustments made to one-time benefit payments.

**X. DRAFT AGENDA FOR NEXT COMMITTEE MEETING (Item 10)**

There were no changes to the draft agenda.

**XI. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC (Item 11)**

There were no statements from the public.

**XII. ADJOURNMENT**

There being no further business to conduct, Controller Yee adjourned the Audits and Risk Management Committee meeting at 4:12 p.m.

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Cassandra Lichnock, Chief Executive Officer  
And Secretary to the Teachers' Retirement Board

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Betty Yee, State Controller, Chairperson

Prepared by: Trevor Young, Counsel