



Audits & Risk Management Committee

Item Number 6 – Open Session

Subject: 2022 Audit Services Audit Plan Final Progress Report

Presenter(s): Cheryl Cervantes Dietz, Roseanne Oyoung, Chris Wall

Item Type: Information

Date & Time: March 1, 2023 – 15 minutes

Attachment(s): Attachment 1 – 2022 Employer Audit Year End Results

Attachment 2 – 2022 Internal Audit Year End Results

PowerPoint(s): 2022 Internal Audit Plan Results

Item Purpose

The purpose of this item is to present the Audit Services' Calendar Year 2022 Audit Plan results.

Executive Summary

The Audits and Risk Management (ARM) Committee approved the 2022 Audit Plan (Plan) at the November 2021 meeting. In accordance with the Audit Services' Charter and *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), the Chief Auditor presents periodic reports to inform the Committee on the status and results of the Plan.

The Plan was designed to provide coverage of key risks, given the existing staff and approved budgets. Audit Services completed an annual risk assessment of employers and CalSTRS operations to develop the Plan, as required by the IIA Standards. The audits were designed to provide assurance that management identified key risks in achieving CalSTRS strategic goals and objectives and sufficiently mitigated those risks to an acceptable level.

The Plan results provide an overview of the accomplishments, audit results and audit findings of both the Employer Audit and Internal Audit programs within Audit Services. The detailed results are summarized in Attachments 1 and 2, respectively.

IIA Standard 1320 requires the Chief Auditor to communicate the results of the Quality Assurance and Improvement Program (QAIP) to senior management and the board. As part of QAIP, Audit Services performs internal quality assessments to enhance audit quality through

ongoing reviews and periodic self-assessments. We recently completed an internal quality assessment covering July 1, 2021 through June 30, 2022. In addition to our internal quality assessments, an external peer review is performed every five years. The most recent external peer review on Audit Services was conducted in 2021 with the highest rating of Generally Conforms.

Annual Audit Plan Highlights

Employer Audits:

The employer audit team completed a total of 123 audits consisting of 9 full-scope and 114 limited scope audits specifically focused on special compensation and unused sick leave. For the limited scope audits, we utilize data analytics to select which employers to audit. Approximately 45,300 or 10 percent of CalSTRS members were employed by the 123 audited employers (County Offices of Education, School Districts, Community College Districts, Charter Schools, etc.).

A summary of the employer audit results is included as Attachment 1.

Status of Findings – Employer Audit

During the twelve-month period from January 1, 2022, through December 31, 2022, the employer audit team reported 258 new findings. During the same period, 182 employer audit findings from both previous and current years were resolved. Overall, 185 findings remain in progress, which consists of the following:

- Twenty-seven audit findings from the prior year
- One hundred and fifty-eight audit findings from the current year

Internal Audits:

Audit Services staff performs internal audits of CalSTRS operations and contracts with external audit firms to perform specialized internal audits of Investments and Information Technology Services. The internal audit team completed its 2022 audit plan with an additional audit at management's request. The internal audit team also facilitated nine contracted audits: four information technology audits, three investment audits, one consulting engagement, and the financial statement audit. Two contracted audits are in progress, and one has been deferred to 2024. Table 1 summarizes the audits completed in 2022 that resulted in 50 internal audit findings.

Table 1: 2022 Internal Audit Plan Results – Completed Audits

Internal Audits
<ul style="list-style-type: none"> ○ Strategic & Business Planning ○ Path Forward ○ Contract Management ○ Headquarters Expansion Costs ○ Travel Management ○ Software Management ○ Transfer Employee System Access ○ Mail & Receiving ○ Benefit Overpayment Receivables & Write Offs ○ Death Benefits ○ Survivor Benefits ○ GRI – Sustainability ○ Intergovernmental Transfers
Contracted Audits
<ul style="list-style-type: none"> ○ Investment Services & Investment Accounting ○ Application Incident Management ○ Pension Solution Health Assessment ○ Information Security ○ Cloud Security – Phase I ○ System Implementation (Software Development Life Cycle) ○ Securities Lending ○ Currency Management ○ Financial Statement

For this reporting period, Internal Audits issued 11 final audit reports. Of those 11 final reports, the internal audit team identified 28 findings. The executive summaries of these reports are in Attachment 2. The information security audit will be presented at the March 2023 Teachers’ Retirement Board closed session.

Status of Findings – Internal Audits

During the twelve-month period from January 1, 2022, through December 31, 2022, a total of 32 internal audit findings from both previous and current years were resolved. Overall, 21 findings remain in progress, which consists of the following:

- Three audit findings over one year old
- Eighteen audit findings less than a year old

Audit Services has an established follow-up process to monitor audit finding resolution. Without timely and effective resolution, management is essentially accepting the risks associated with those findings that are in progress of being resolved. The status of management’s corrective actions is summarized in Attachment 2.

Strategic Plan Linkage: Goal 1: [Strategic Plan - CalSTRS Goal 1: Trusted stewards-ensure a well-governed, financially sound trust fund.](#)

Board Policy Linkage: ARM Committee Charter:

<https://www.calstrs.com/files/f3854845f/BoardGovernanceManual-August2022.pdf>
