



Audits & Risk Management Committee

Item Number 5 – Open Session

Subject: 2022 Internal Audit Plan Mid-Year Progress Report

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

Item Type: Information

Date & Time: July 7, 2022 – 15 minutes

Attachment(s): Attachment 1 – Employer Audit Mid-Year Progress Report

Attachment 2 – Internal Audit Mid-Year Progress Report

PowerPoint(s): None

PURPOSE

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

DISCUSSION

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

Consistent with Audit Services' Charter, Audit Services has the responsibility to update the plan based on risks and control concerns identified by management.

Employer Audits

Employer Audit Results

An overview of Employer Audit results as of May 12, 2022, is included as Attachment 1. In summary:

- Staff completed 48 of the 120 Employer audits in the plan. This includes five full-scope audits and 43 limited-scope audits.
- 105 audits are also in progress, which includes 15 full-scope and 90 limited-scope audits.

For the five full-scope audits, we found a total of 16 findings, which include misreported compensation/special compensation, post-retirement earnings, and unused sick leave findings.

For the 43 limited-scope audits, we focused specifically on one of the following areas:

- Special compensation,
- unused sick leave,
- or post-retirement earnings.

Data analytics was utilized to select Employers with a greater likelihood of misreporting in these areas. For the 43 limited-scope audits, we found a total of 100 findings, which included compensation/special compensation (98 findings), unused sick leave (one finding), and post-retirement earnings (one finding). The vast majority of our limited scope audits focused on compensation/special compensation.

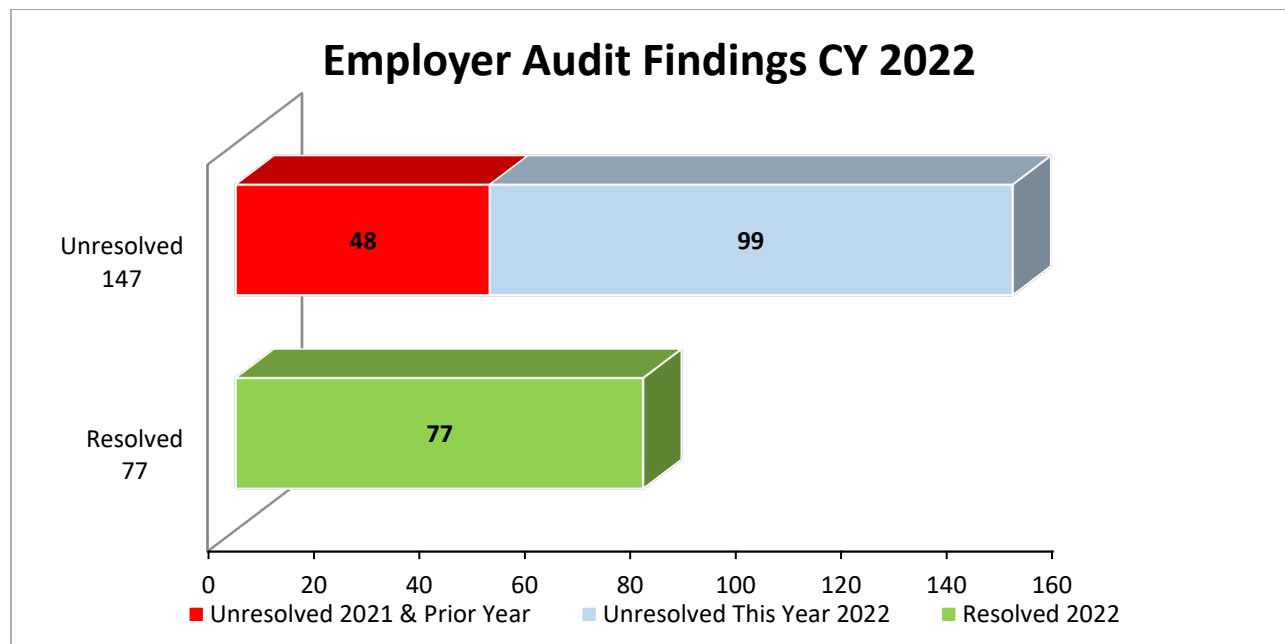
Overall, we found a total of 116 findings and 33 of the 48 Employers audited (69 percent) had at least one systemic finding. 10 Employers had no findings (21 percent).

Status of Findings – Employer Audit

During the four and one-half month period from January 1, 2022, through May 12, 2022, the employer audit team reported 116 new findings. During the same period, 77 employer audit findings from both previous and current years were resolved. Overall, 147 findings remain in progress, which consists of the following:

- Forty-eight audit findings from the prior year
- Ninety-nine audit findings from the current year

Illustration 4: Employer Audit Findings



Internal Audits

Internal Audit Results

For this reporting period, Internal Audits issued two final audit reports:

- Death & Survivor Benefits
- Mail & Receiving

These audit report summaries reports are located on pages 2 and 5, respectively, in Attachment 2. Currently, Internal Audits has the following five audits in progress:

- Transfer Employee System Access
- Travel Management
- Path Forward
- Strategic & Business Planning
- Benefit Payment Modification

Contracted Audit Results

Audit Services contracts with external audit firms to perform specialized audits of CalSTRS Investments and Information Technology Services. For the 2021 Audit Plan, the following two contracted audits are in progress:

- Investment Services & Investment Accounting
- Application Incident Management

Status of Internal Audit Findings

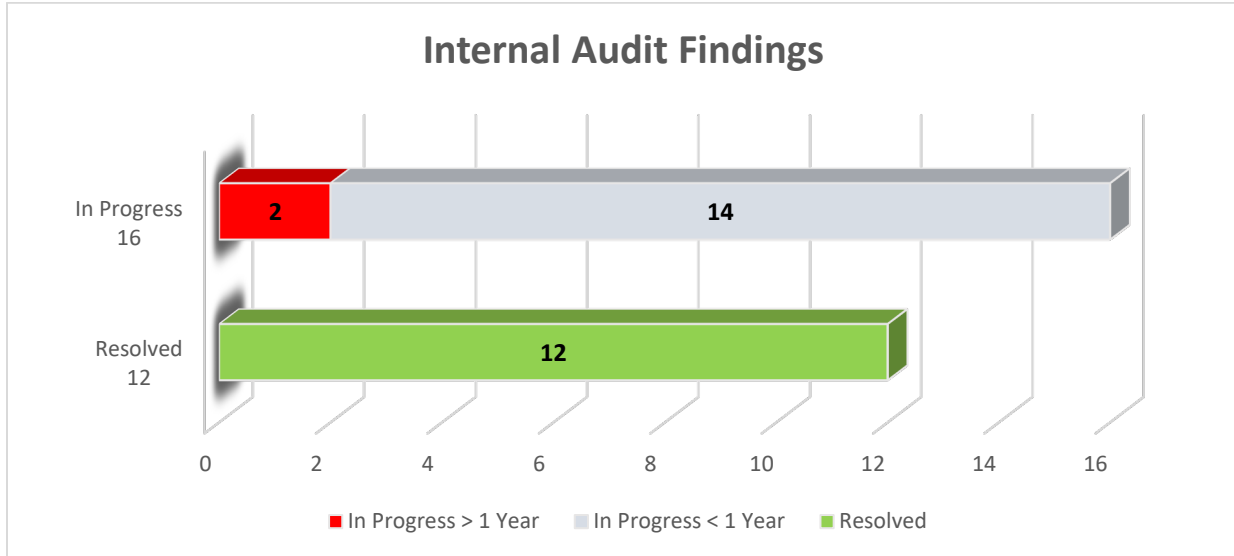
The primary benefits of audits are not realized until effective and timely actions are taken by management to resolve findings by implementing agreed upon recommendations. The findings that are in progress relate to the following topics:

- Governance
- Process improvements
- Oversight and monitoring
- Information technology and security

Management is responsible for providing Internal Audits with corrective actions to resolve outstanding audit findings. Without timely 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 on pages 11 through 15 of Attachment 2.

From January 2022 through May 2022, management resolved 12 of 28, or 43 percent, of the outstanding internal audit findings demonstrated in Illustration 2.

Illustration 2: Internal Audit Findings



Audit Services verifies a finding’s resolution when management reports it as resolved. All resolved findings are included in the report period where management fully implemented the corrected actions, and Audit Services verified the finding’s resolution.