



Audits & Risk Management Committee

Item Number 6 – Open Session

Subject: 2021 Internal Audit Plan Final Progress Report

Presenter(s): Larry Jensen & Roseanne Oyoung

Item Type: Information

Date & Time: March 3, 2022 – 15 minutes

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

Attachment 2 – Internal Audit Year End Results

PowerPoint(s): PowerPoint 1 – 2021 Internal Audit Plan Results

PURPOSE

The purpose of this item is to present the Audit Services' Calendar Year 2021 Audit Plan results.

DISCUSSION

The Audits and Risk Management (ARM) Committee approved the 2021 Audit Plan (Plan) at the November 2020 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, audit findings, appeals, and systemic findings of both the Employer Audit and Internal Audit programs within Audit Services. The detailed results are summarized in Attachments 1 and 2, respectively.

Employer Audit Results

The employer audit team completed a total of 108 audits, 93 were limited scope audits specifically focused on creditable compensation, special compensation, post-retirement earnings 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 108 audited employers (County Offices of Education, School Districts, Community

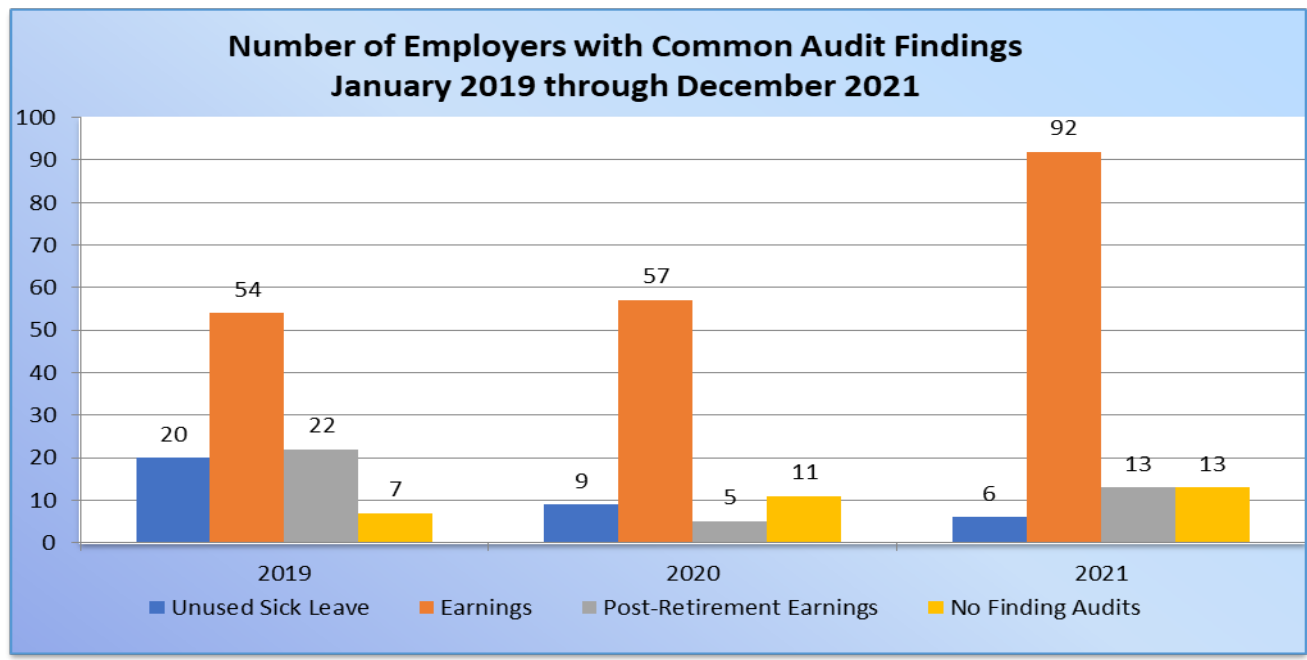
College Districts, Charter Schools, etc.). A summary of the employer audit results is included as Attachment 1.

Overall, 232 findings were identified in the 108 audits. Compared to the average percentage per finding totals from January 2019 through December 2021, the 2021 finding percentages for all finding types increased, except for the Unused Sick Leave. This was expected as 92 (85 percent) of the audits were limited scope audits, specifically focused on reported compensation. The number of no finding audits also increased. Full-scope audits may contain at least one or all finding types within one audit.

Table 1: Number of Employers with Common Audit Findings

Number of Employers with Common Audit Findings – January 2019 through December 2021									
PLAN YEAR	NUMBER OF AUDITS	UNUSED SICK LEAVE		EARNINGS		POST-RETIREMENT EARNINGS		NO FINDING AUDITS	
		Number of Employers	Percentage of Audits	Number of Employers	Percentage of Audits	Number of Employers	Percentage of Audits	Number of Employers	Percentage of Audits
2019	86	20	23.26%	54	62.79%	22	25.58%	7	8.14%
2020	74	9	12.16%	57	77.02%	5	6.75%	11	14.86%
2021	108	6	5.56%	92	85.18%	13	12.04%	13	12.04%
Totals	268	35	13.06%	203	75.75%	40	14.93%	31	11.57%

Illustration 1: Number of Employers with Common Audit Findings



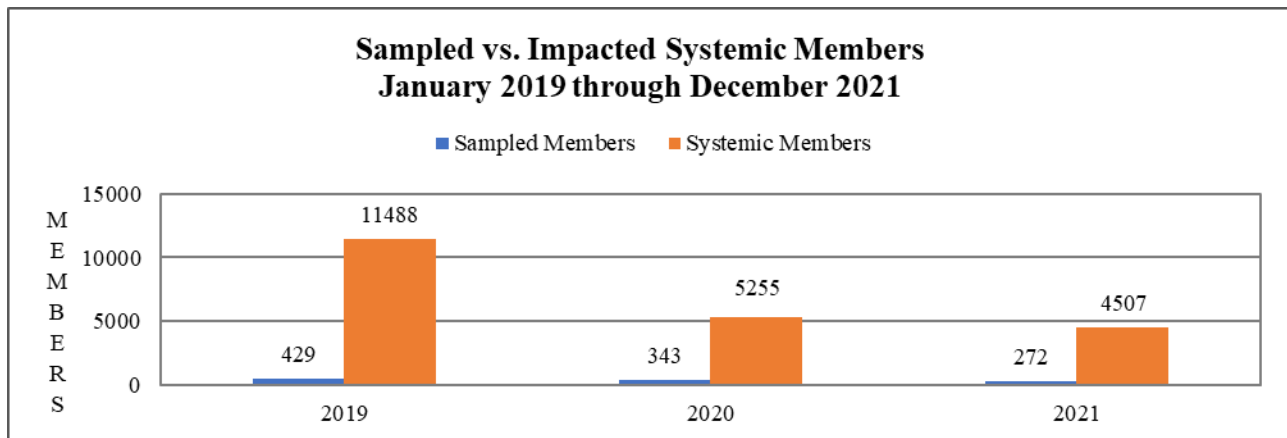
Systemic Findings

Of the 108 completed audits, 83 (77 percent) had at least one systemic finding. As of January 13, 2022, 42 of the 83 employers with systemic findings identified 4,057 additional members affected by the audit findings, in which only 272 members were sampled.

Table 2: Number of Employers with Systemic Findings and Impacted Members

Plan Year	Total Employers Audits	Employers with Systemic Findings	Employers Identifying Systemic Member Population	Sampled Members	Systemic Members
2021	108	83	42	272	4,507

Illustration 2: Members Sampled vs. Impacted Systemic Members



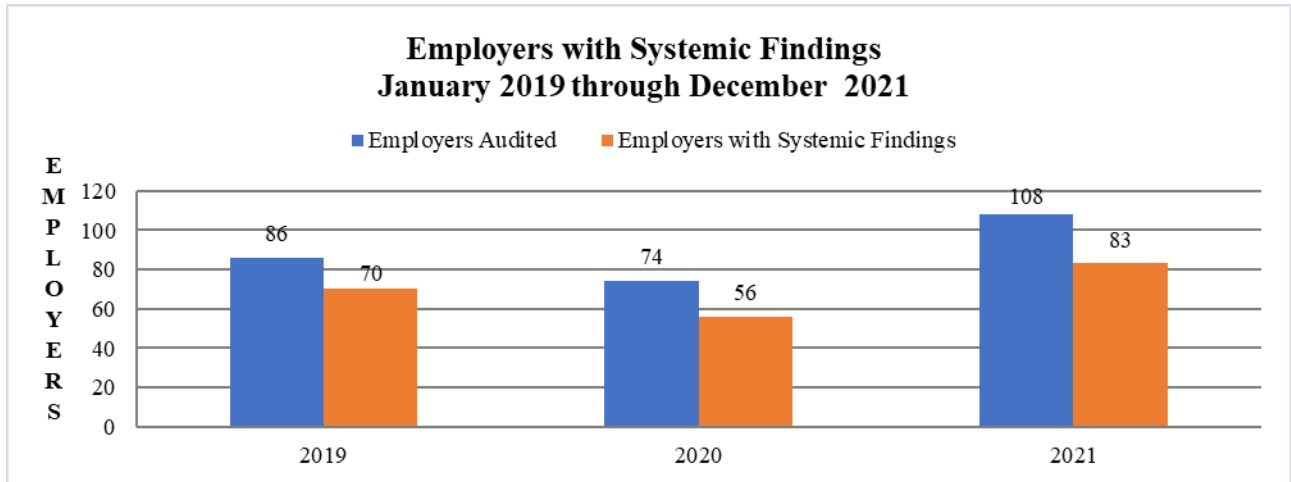
Member Account Services continues to work with the remaining employers to ensure compliance with the findings’ corrective action plan. See Attachment 1, pages 10 through 14, for specific details regarding the 83 employers with systemic audit findings.

From January 1, 2019, through December 31, 2021, Audit Services completed 268 employer audits, in which 209 employers were found to have at least one systemic finding. During this period, Audit Services found a total of 602 findings, in which 366 findings were found to be systemic.

Table 3: Number of Employers with Systemic Findings

Number of Employers with Systemic Findings from January 2019 to December 2021						
Plan Year	Employers Audited	Employers with Systemic Findings	Percentage of Employers with Systemic Findings	Total Findings (Systemic & Non-Systemic)	Total Systemic Findings	Percentage of Findings that are Systemic
2019	86	70	81%	210	122	58%
2020	74	56	76%	160	104	65%
2021	108	83	77%	232	140	60%
Totals	268	209	78%	602	366	61%

Illustration 3: Employers with Systemic Findings

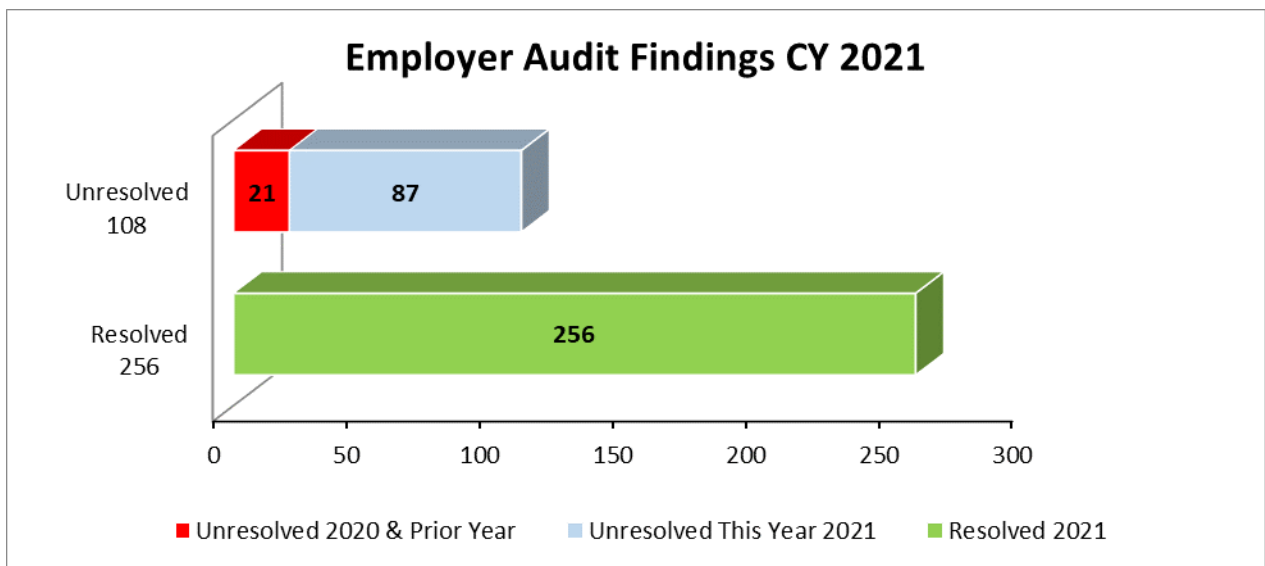


Status of Findings – Employer Audit

During the twelve-month period from January 1, 2021, through December 31, 2021, the employer audit team reported 232 new findings. During the same period, 256 employer audit findings from both previous and current years were resolved. Overall, 108 findings remain in progress, which consists of the following:

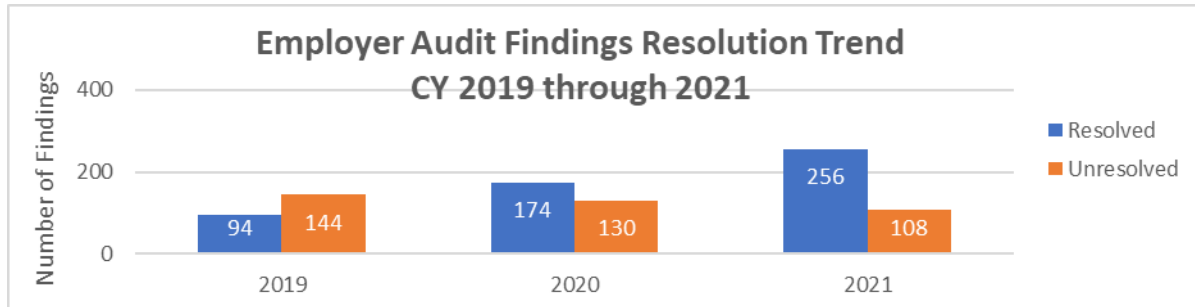
- Twenty-one audit findings from the prior year
- Eighty-seven audit findings from the current year

Illustration 4: Employer Audit Findings



The upward trend of employer audit findings is due to the increase of completed employer audits. Employer Services (Member Account Services) continues to work with the employer to correct the unresolved prior year findings.

Illustration 5: Employer Audit Finding Resolution Trend



Internal Audit Results

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 all eight audits and two consulting engagements in the 2021 Calendar Year Audit Plan. In addition, the internal audit team facilitated eight contracted audits: five investment audits, two information technology audits, and the financial statement audit. The accomplishments of Internal Audit are summarized in Table 4, resulting in 35 audit findings.

For this reporting period, Audit Services completed three audits and two advisory projects. Audit Services also facilitated the completion of three contracted audits: two audits related to Investments and one audit related to Information Technology. The internal audits completed during this reporting period totaled 22 findings. The executive summaries of these reports are in Attachment 2.

The Information Security audit will be presented at the March 2022 Teachers’ Retirement Board closed session.

Table 4: 2021 Internal Audit Plan Results – Completed Audits

2021 INTERNAL AUDIT PLAN SUMMARY	
Internal Audits	Contracted Audits
<ul style="list-style-type: none"> ○ Workforce and Succession Planning ○ Headquarter Expansion – Change Orders ○ Data Privacy ○ Genesys Cloud Services, Inc. ○ Production Data & Application Deployment Access ○ Technology Procurement Services ○ Excess Contribution Returns ○ Global Reporting Initiative – Sustainability ○ Unresolved Payments ○ Multiple Benefit Payments. 	<ul style="list-style-type: none"> ○ Sustainable Investment & Stewardship Strategies ○ Account Management and Performance Reporting ○ Information Security ○ Global Equity* ○ Innovative Strategies* ○ Cash Management* ○ Business Direct – IT Application Controls* ○ Independent Financial Statement Audits
	*2020 Audit Plan

Status of Findings - Internal Audit

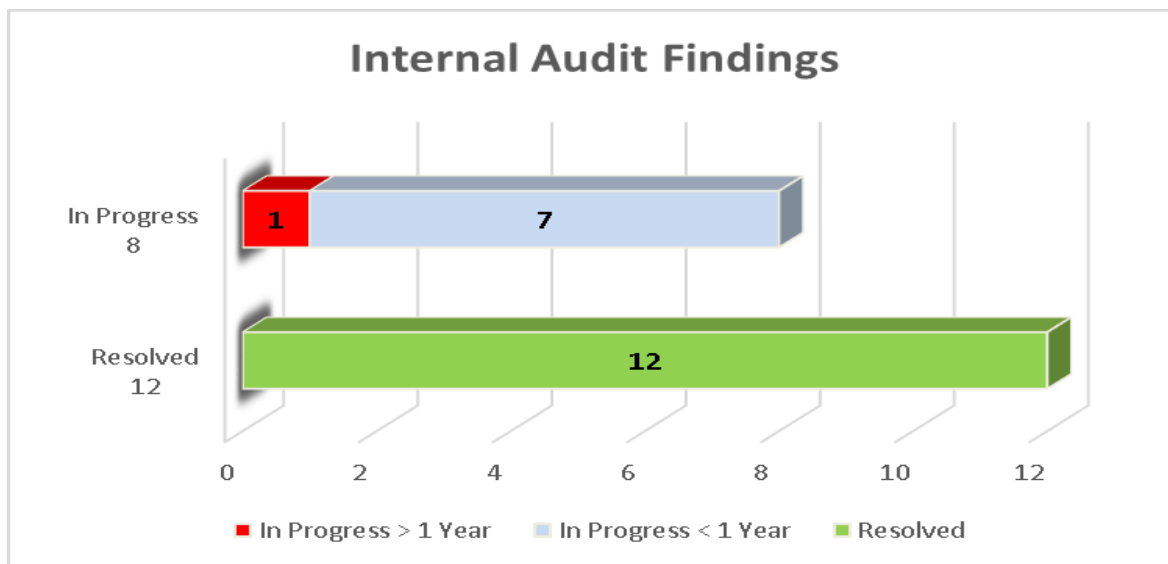
The primary benefits of audits are not realized until effective and timely actions are taken by management to resolve findings by implementing agreed upon recommendations. Audit Services followed up on the status of findings that were in progress from prior issued reports. These findings relate to the 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 22 through 27 of Attachment 2.

From October 2021 through December 2021, management resolved 12, or 60 percent, of the outstanding internal audit findings demonstrated below:

Illustration 2: Internal Audit Findings



Of the 8 outstanding findings, four were added from audits recently completed and reported at the November 2021 ARM Committee meeting. 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.