CALSTRS

Audits and Risk Management Committee

Item number 4 – Open session

Subject: Audit Services Fiscal Year 2025-26 Audit Plan Results

Presenter(s): Cheryl Cervantes Dietz / Chris Wall / Marlene Noss

Item type: Action

Date and time: September 24, 2026 – 10 minutes

Attachment(s): Attachment 1 – Fiscal Year (FY) 2025-26 Employer Audit Results

Attachment 2 – Fiscal Year (FY) 2025-26 Internal Audit Results

Attachment 3 – Audit Services Key Performance Measures

Attachment 4 – Audit Services Long-Term Plan

Attachment 5 – Audit Services' Communication Matrix

Attachment 6 – Audit Services Ethics, Professionalism, and Independence Statement

PowerPoint presentation(s): FY 2025-26 Audit Services Audit Plan Results

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Item purpose

The purpose of this item is to propose modification and present results from the Audit Services' Fiscal Year (FY) 2025-26 Audit Plan. Additionally, s updates on Audit Services' performance and long-term plan will be presented.

Recommendation

Staff recommends that the Audits and Risk Management (ARM) Committee approve the removal of the project resource management engagement from the Audit Services FY 2025-26 audit plan, with a redirection of audit resources to BenefitConnect financial reporting and Copilot advisory services. Additionally, Audit Services requests Committee input regarding Audit Services' performance measures.

Executive summary

In accordance with the ARM Committee Charter and the Global Internal Audit Standards (Standards), Audit Services regularly updates the Committee on audit activities and seeks approval, when necessary, on any significant modifications to its plans.

The Audit Plan was developed to deliver assurance and advisory services addressing key risks, based on available staff and approved budgets. Audit Services conducted an annual risk assessment of employers and CalSTRS operations, as required by the Standards, to inform the Plan. Audits were structured to provide assurance that management identified and appropriately mitigated critical risks to achieving CalSTRS strategic objectives. Advisory services offered guidance on new policies, processes, or systems without assuming management responsibilities or providing assurance. Audit Services regularly reports on audit plan outcomes, findings, performance, long-term goals and success indicators.

Internal Audit Plan Proposed Modification: In accordance with the Audit Services Charter and Standards, Audit Services is responsible for updating the audit plan in response to evolving circumstances. With the rollout of BenefitConnect, the organization prioritized allocating resources to effectively address customer needs. As project resource management risks were managed in real time, Audit Services shifted its focus to providing advisory support for BenefitConnect financial reporting and Copilot controls. Therefore, Audit Services is seeking the Committee's approval to modify its 2025-26 audit plan as indicated in the recommendation.

Audit Services Performance Measures Input: Standard 12.2 requires the Chief Auditor to develop objectives to evaluate the internal audit function's performance considering input and expectations from the ARM Committee and Senior Management. Audit Services recently updated its performance measures. These performance measures are used to manage the internal audit function. For transparency purposes, Audit Services provides the ARM Committee with a subset of these measures which historically have varied. Prior to this year Audit Services provided the ARM Committee an update on the following performance measures.

- Alignment of the audit plan with enterprise risks and organization's strategic goals
- Audit plan completion
- Audit Services staff competencies
- Client Survey results

Audit Services intends to provide the ARM Committee with regular updates on the following performance measures and requests feedback on these proposed metrics or suggestions for additional information. Refer to Attachment 3 for additional information.

- Audit Plan completion
- Audit Plan alignment with enterprise risks and organization's strategic goals
- Allocation of advisory engagements
- Staff retention (vacancy rate)
- Staff competencies (training and performance)
- Conformance with Standards

FY 2025-26 Audit Plan Results:

Employer Audits:

The employer audit team conducts audits of employer payroll reporting for compliance with the Teachers' Retirement Law and the Public Employee's Pension Reform Act regarding eligible membership and creditable compensation reported to CalSTRS. The employer audit team completed 127 audits focused on special pay, base compensation, post-retirement earnings, and unused sick leave. As a result of the 127 audits completed, the employer audit team reported 212 new findings. A summary of the employer audit results is included in Section I of Attachment 1.

Employer Audit Finding Resolution Status:

Employer Audits tracks and validates the employer audit finding resolutions, refer to Section II of Attachment 1. As of June 30, 2026, 99 employer audit findings remained unresolved for over a year. Subsequently, two employers with findings between three to four years old resolved three findings. Prolonged unresolved employer audit findings pose a significant organizational risk, as they increase the likelihood of substantial adjustments to member benefits potentially reducing stakeholder trust and member satisfaction. To address this, Benefits and Services implemented a more rigorous process last year to improve timeliness of reporting corrections. Clarifying language is also being proposed to AB1667 regulations requiring employers to submit corrections within 150 days of receiving the final audit report. Adding this requirement to AB 1667 should improve timely employer reporting of audit-related adjustments.

Internal Audits, Data Solutions & Quality Assurance:

The internal audit team assesses CalSTRS' governance, risk management and control processes to add value and enhance the organization's operations. Internal Audits contracts with external service providers to perform internal audits that require specialized knowledge, such as investments and information technology and security. In addition, the internal audit data solutions team applies data analytics to Audit Services' engagements, including employer audit risk assessments and performs user access reviews to elevate organizational risk insight. Additionally, the team leverages technology to create audit efficiencies and enhance quality.

The internal audit team completed its FY 2025-26 Audit Plan in July 2026 and identified 16 audit findings as a result. A summary of the internal audit results is included in Section I of Attachment 2. Internal Audit also responded to two management requests related to Copilot and BenefitConnect Financial Reporting Controls.

Data Solutions collaborates with other CalSTRS business units to regularly conduct user system access reviews. These reviews ensure users only have access to necessary resources to perform their jobs, minimizing potential security risks. Refer to Attachment 2 Section III. As a result of the 24 user access reviews completed, the data solutions team issued 107 closeout memos, resulting in 50 observations and the identification of 133 users across CalSTRS. Observations are followed up on to ensure effective remediation.

Internal Audit Finding Resolution Status:

Audit Services has an established follow-up process to monitor audit finding resolution. Without timely and effective resolution, management is accepting the risks associated with those findings that are in progress of being resolved. As of June 30, 2026, 5 internal audit findings were over one year old, two of these are key audit findings. Subsequent to June 30, 2026, one of the key audit findings was resolved. Refer to the status of internal audit findings as of June 30, 2026, in Attachment 2 Section IV.

Audit Services Long-Term Plan: Audit Services' Long-Term Plan outlines an approach to elevate Audit Services team's capabilities and focus in support of CalSTRS' goals and objectives. Audit Services developed success indicators to achieve their objectives. Refer to Attachment 4 for a status update on Audit Services' Long-Term Plan.

ARM Committee Communication Matrix: To enable quality insights based on the results of internal audit services and to promote strong effective governance of the internal audit function, consistent and reliable communication to the ARM Committee and senior leadership is essential. Therefore, to assist the ARM Committee with the Chief Auditor's required reporting in accordance with the Standards, ARM Committee charter and Audit Services charter, Audit Services developed a communication matrix, refer to Attachment 5.

Audit Services Ethics, Professionalism, and Independence Statement: The Standards also require that internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions. Audit Services is committed to ethics, professionalism and independence, providing risk-based, objective assurance, advice, and insight. Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities and achieve the Purpose of Internal Auditing without compromise. An independent internal audit function supports this objectivity. If objectivity or independence are impaired, then disclosure is required. The chief auditor provides a semi-annual statement addressing ethics, professionalism, and independence, refer to Attachment 6.

Strategic Plan linkage: [Strategic Plan - CalSTRS]

Board Policy linkage: [Board Governance Manual (calstrs.com)]
