Fiscal Year (FY) 2025-26 Internal Audit Results

Section I: Internal Audit reports issued from July 1, 2025, to July 31, 2026

Internal Audit Engagement	Branch	# Findings
Telework Compliance	Administrative Services	Advisory
Asset Management*	Facilities Management	3
Third Party Vendor Contract Compliance - Voya	Benefits & Services	2
Microsoft Copilot*	General Counsel	Advisory
Investment Accounting*	Financial Services	0
Policy Management	Financial Services	0
Data Governance*	General Counsel	4
Information Security Annual Assessment *	General Counsel	Confidential
Information Security Variance Process*	General Counsel	5
Sustainable Investment & Stewardship Strategies*	Investments	0
Global Custodian Oversight*	Investments	1
Legislative Process	Investments	1
Generative Artificial Intelligence – Microsoft Copilot Part 1*	Organization-wide	Advisory
BenefitConnect Implementation*	Organization-wide	Advisory
Organizational Fraud Awareness & Response*	Organization-wide	Advisory
	Total	16
***Audits reported after the last ARM Committee meeting**		

Section II: Internal Audit reports completed since reporting in March 2026

The following are key findings resulting from audits completed since the last report to the ARM Committee in March 2026 (update as of January 30, 2026).

Asset Management

Objective & Scope: Ensure adequate internal controls exist to properly manage and maintain non-technology assets.
Results: Audit resulted in three audit findings with two key findings. Finding #1 is to be addressed by July 2027 and Finding #2 was resolved during the audit.

1. CalSTRS does not currently have an enterprise-wide Asset Management policy that addresses the key internal processes and business area roles and responsibilities for ensuring all non-technology assets are properly managed and maintained.
   Management planned action: Facilities Management should collaborate with the appropriate business areas to develop and implement an enterprise-wide Asset Management policy and procedures. Additionally, Facilities Management should formally document their asset management processes.
2. Facilities Management performed their last physical asset inventory and reconciliation in 2018; however, they were unable to provide any documentation to support that the process occurred. Facilities Management engaged the CIT to assist with conducting a physical asset inventory count and reconciliation in Q1 2026, but the process is ongoing and the results have not been released to executive leadership.
   Subsequent to fieldwork, Facilities Management provided evidence that the Chief Administrative Officer received a memorandum on June 26, 2026, documenting Business Services completed reconciliation of CalSTRS' equipment inventory. Management further attested that the next CalSTRS triennial asset inventory will occur in 2029.
   Management planned action: Business Services should complete their current physical asset inventory count and reconciliation process with assistance from CIT and implement the procedures and recommendations provided by CIT. Further, Business Services should report and retain documented approval of inventory adjustments to the agency/department director or the designee for all future physical asset inventory counts and reconciliations.

Data Governance

Objective & Scope: Evaluate the adequacy and effectiveness of internal controls over data governance.
Results: Audit resulted in four audit findings with three key findings listed below to be addressed by June 2027.

1. Data Owners and Data Stewards were not provided with bi-annual role-specific data management training during the audit scope period.
   Management planned action: EIM will configure their Data Owner and Data Steward training within HR Link as a twice-yearly requirement consistent with the administration and tracking approach used for the annual all-staff mandatory data management training.
2. CalSTRS' K network drive contains files that are not in compliance with CalSTRS policy, including media files, non-work-related files and files containing confidential data without restricted access.
   Management planned action: EIM will develop and implement monitoring procedures to periodically assess compliance with network drive policies and remediate identified exceptions in a timely manner.
3. EIM's Data Steward roster is outdated and includes individuals who are no longer in the role or unaware of their designation.
   Management planned action: EIM will update the Data Owner and Data Steward roster on a quarterly basis by sending a standardized verification email to the Owner for confirmation of listed staff. Additionally, EIM will revise the introductory email to include language identifying them as Data Stewards who are also part of the Governance Council.

Information Security Annual Assessment

Objective & Scope: Assess the adequacy of design and effectiveness of controls over CalSTRS Information Security.
Results: The audit is performed annually at which time any findings are validated. Due to the nature of the audit, the results are confidential.

The following audits did not have any key audit findings.

Information Security Variance Process

Objective & Scope: Evaluate the adequacy and effectiveness of CalSTRS' information security variance processes.
Results: Audit resulted in five non-key findings.

Global Custodian Oversight

Objective & Scope: Evaluate the adequacy and effectiveness of key internal controls and oversight of State Street Bank & Trust, the Custodian for the CalSTRS portfolio of investments.
Results: Audit resulted in one non-key finding.

The following audits did not have any audit findings.

Investment Accounting

Objective & Scope: Assess the design adequacy and operating effectiveness of controls over CalSTRS' investment accounting and reporting.

Sustainable Investment and Stewardship Strategies

Objective & Scope: Evaluate whether adequate controls are in place over stewardship and strategic relations activities.

The following management memos were issued as a result of advisory services.

Generative Artificial Intelligence

Objective & Scope: Assess current Generative Artificial Intelligence (GenAI) governance practices, identify risks and process gaps, and provide practical recommendations to help management design, enhance, and mature governance, oversight, and control structures supporting the responsible use of GenAI.

Generative Artificial Intelligence – Microsoft Copilot Part 1

Objective & Scope: Evaluate CalSTRS Copilot licensing process for control design adequacy.

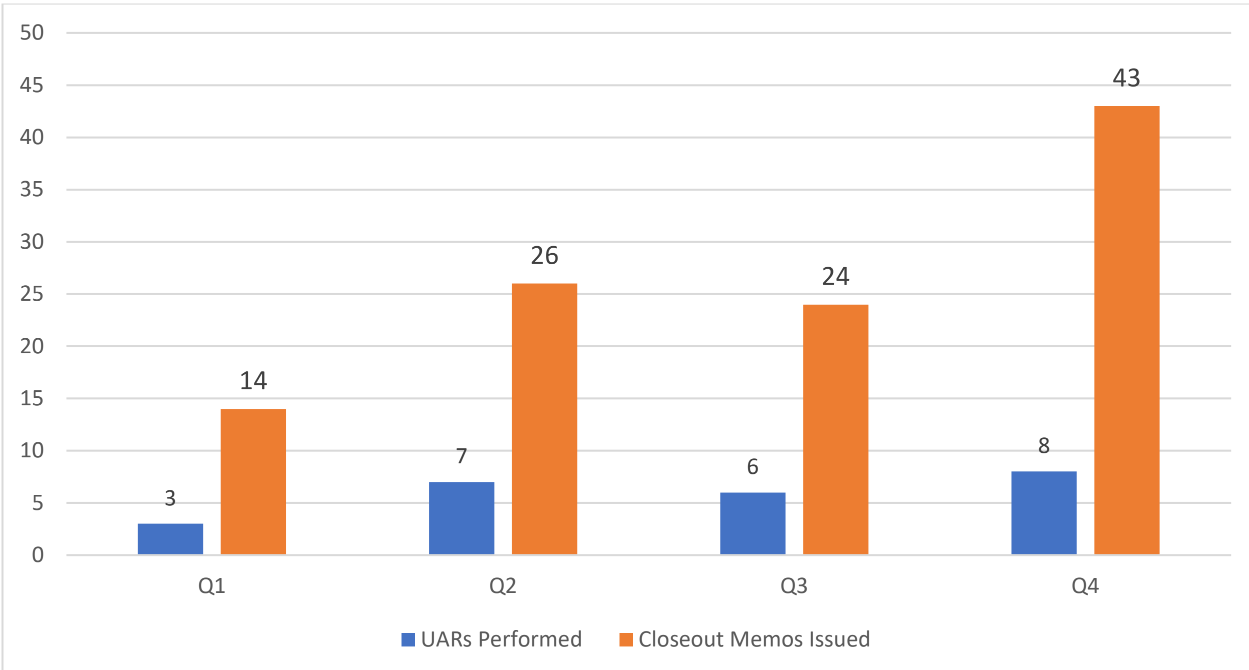
Benefit Connect Implementation

Objective & Scope: Advise whether the business process controls and information technology controls were adequately designed and implemented in the BenefitConnect pension administration system.

Organizational Fraud Awareness and Response

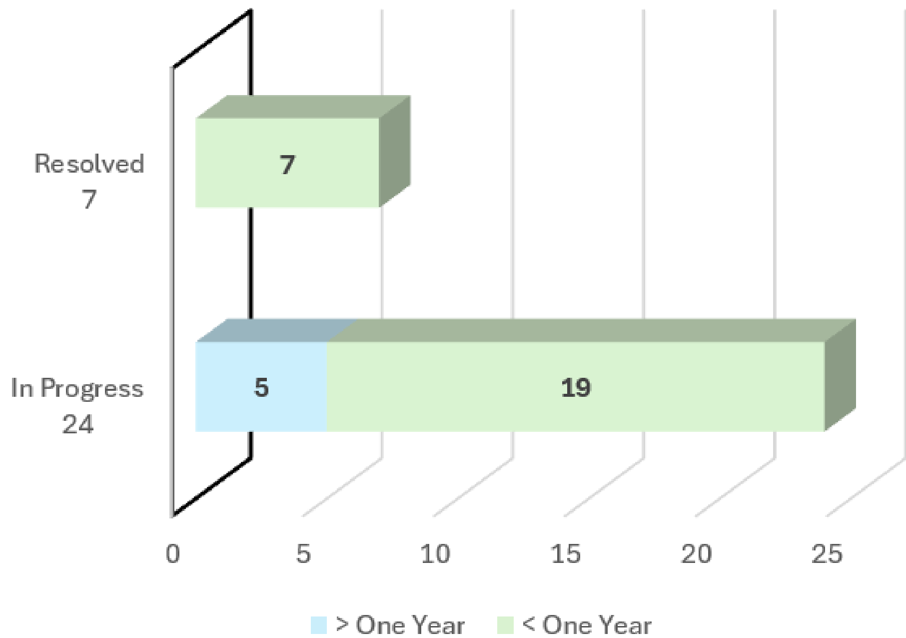
Objective & Scope: Assess the maturity of CalSTRS' fraud awareness and reporting process.

Section III: User access review (UAR) summary



CalSTRS Branch	# of Users with incorrect access	CalSTRS Branch	# of Users with incorrect access
Technology Services	36	Administrative Services	6
Benefits & Services	25	General Counsel	25
Financial Services	16	Investments	3
Executive	21	Public Affairs	1

Section IV: Internal Audit finding progress update



Of the 19 in-progress findings, all are considered non-key findings. Key findings focus on controls that are not fully addressing key risks or working effectively and consistently; instances of noncompliance with laws, regulations, or policies; or occurrences of inefficient or ineffective processes.

<u>Audit findings greater than 1 year old</u>

Procurement Compliance – Key Finding

1. ***Finding 1:*** Although Procurement Management has a process to ensure the timely update of a state required form (600-H), the process does not extend to include other required contract forms, including the Certification of Contractor's Employee Background Investigation; Personal History Statement; and Confidentiality, Non-Disclosure and Acceptable Use Agreement. Most of the contract files we reviewed were missing current, required forms.

   Status: Implementation of the compliance module in the ARIBA procurement management system is behind schedule. This delay affects the ability to maintain and track required contract forms.

   Original/Revised Target Completion Date: July 2025/December 2026

Physical Security – Key Finding (1), Non-Key Findings (4, 6)

2. ***Finding 1:*** Facilities Management does not have a formal training plan for Building Emergency Response Team (BERT) volunteers. Rather the training is left to the discretion of each floor warden during evacuation drills.

   Status: Facilities Management has developed Computer Based Training now available in HR Link. Annual completion is required for all existing and new BERT volunteers.

   Original/Revised Target Completion Date: April 2026/June 2026 – Resolved subsequent to June 30, 2026

3. ***Finding 4:*** Emergency response training exists for new CalSTRS employees but is not mandatory for all CalSTRS employees. New CalSTRS employees are required to take a Life & Safety training course as part of onboarding, however, that is a one-time mandatory training, and long-term employees may not have had this training.

   Status: Facilities Management has developed but not yet implemented an annual mandatory emergency response training to ensure all CalSTRS employees receive regular guidance on what to do in the event of an emergency.

   Original/Revised Target Completion Date: June 2026/September 2026

4. ***Finding 6:*** Although Facilities Management has documented procedures in place, they have not been updated and are not consistently followed.

   Status: Facilities Management has partially addressed this finding.

   Original/Revised Target Completion Date: June 2026/November 2026

Code of Ethics and Business Conduct – Non-Key Finding

5. ***Finding 2:*** Opportunities exist to strengthen the incompatible activities process, including the development of an incompatible activities policy.

   Status: An incompatible policy has been developed but not yet finalized because notification to several unions is required but cannot occur while contract negotiations are ongoing.

   Original/Revised Target Completion Date: October 2025/December 2026