



Crowe LLP
 Independent Member Crowe Global

Members of Management
 California State Teachers' Retirement System
 West Sacramento, California

In the planning and performing of our audit of the financial statements of California State Teachers' Retirement System (the "System" or "CalSTRS") as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the System's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of issuing our report on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

In planning and performing our audit of the Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity of State Teachers' Retirement Plan (the "STRP"), a plan administered by CalSTRS, for the year ended June 30, 2022, and the captions titled total net pension liability as of June 30, 2022, total deferred outflows of resources, and total deferred inflows of resources (specified caption totals) included in the Schedule of Aggregate Pension Amounts for Employers and Nonemployer Contributing Entity as of June 30, 2022, we considered the STRP's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity and the specified caption totals included in the Schedule of Aggregate Pension Amounts for Employers and Nonemployer Contributing Entity, but not for the purpose of expressing an opinion on the effectiveness of the STRP's internal control. Accordingly, we do not express an opinion on the effectiveness of the STRP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain matters that we wish to communicate to you. Matters communicated in this letter are classified as follows:

- Deficiency – A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Control Deficiency	Active Member Data – Completeness and Accuracy (Repeat Finding)
Applicability of Impact	CalSTRS Financial Statements STRP - Other Pension Information <ul style="list-style-type: none"> • Schedule of Proportionate Share of Employers and Nonemployer Contributing Entity • Net Pension Liability as of June 30, 2022

Control Deficiency	Active Member Data – Completeness and Accuracy (Repeat Finding)
<p>Description of Deficiency:</p> <p>Member data is fundamental to financial reporting of contributions, benefit payments, and the Total and Net Pension Liability of the STRP. Internal controls are critical to ensure the completeness and accuracy of financial reporting as CalSTRS is dependent upon information from the contributing entities.</p> <p>We commend management for the significant steps taken over the past several years related to the controls over member data, however, we continue to identify errors in the reported data that were not identified by CalSTRS' internal control structure. Common findings include:</p> <ul style="list-style-type: none"> • Continued misapplication of Limited Term Enhancements • Prior year earnings reported in the current year unrelated to retro pay • Unreported extra duty • Extra duty reported incorrectly, e.g. as salary or special compensation • Incorrect pay rate impacting the calculation of earnable compensation • Incorrect pay code, e.g. 10 pay reported as 11 pay 	
<p>Recommendation:</p> <p>Due to the reliance on the contributing entities for the completeness and accuracy of active member data, it is probable that there will continue to be errors in reported data.</p> <p>Crowe recommends that management continue to enhance its internal controls through development and/or improvement of data analytics to identify data anomalies and potential systemic errors based on historical experience, modify employer training strategies to improve effectiveness of training resulting in fewer reporting errors and continue to focus on employer readiness for the implementation of Benefit Connect, which includes functionality and file format regulations intended to reduce errors in reporting and provide immediate feedback to employers regarding potential errors upon submitting their contribution data. Management's evaluation of potential improvements should always consider the cost/benefit of any new enhancements related to the risk of incorrect member data.</p>	
<p>Management's Response:</p> <p>CalSTRS continues to maintain focus on providing education and continuing improvements to tools and resources for employers to assist them in their ultimate responsibility for the accurate reporting of member data, with an emphasis on common and avoidable misreporting and reaching larger audiences of employer partners (e.g., charter schools).</p> <p><u>Data Analytics</u></p> <p>The Financial Services Branch conducts periodic reviews of the cash contributions from employer report sources. In these reviews, management analyzes the cash contributions for anomalies and variances that could indicate misreported contribution information. Management applies thresholds for common reporting error types, such as special compensation, monitoring for trends or unexpected changes from past cash contributions. Financial Services then partners with Employer Services who reach out to employers to seek more information about the nature of the potentially incorrect reporting and provide guidance to correct any errors.</p> <p>Leadership completed a project with the CalSTRS Continuous Improvement Team in August 2022 to improve the Employer Approved Edit process with a goal of finding efficiencies and creating new tools to increase reporting accuracy related to contribution data submitted by employers that trigger exceptions based on business rules. Analysis of these system edits can result in follow-up inquiries to our employer partners about the reporting to verify the basis for the exceptions. Management will implement the recommendations from the project, increasing the frequency, efficiency, and quality of our Employer Approved Edit review process.</p> <p>The Employer Help team continues to pilot a six-month follow-up for completed audits, analyzing reporting six months after an audit closes to validate that the employer continues to report accurately based on the audit findings. This mitigates the risk of employers continuing misreporting behavior after being audited. If staff discovers any errors, they notify the employer requesting changes to comply with the previously completed audit. Employer Help completed 36 of these follow-up reviews from May through September 2022.</p>	

Control Deficiency	Active Member Data – Completeness and Accuracy (Repeat Finding)
	<p>In addition, to support the outcomes from the Employer Reporting to Final Benefit project, management plans a proof-of-concept approach to review members’ accounts for accuracy prior to receiving a benefit. Each year, staff would sample a significant percentage of accounts for members who have submitted retirement applications. This way, any potential errors or inaccuracies could be resolved with the employer prior to the benefit starting and reducing the risk of a change after retirement. Comments from the employer community and the Teachers’ Retirement Board support this concept. A request for additional staff to create a pre-benefit account review team is included in the fiscal year 2023-24 budget request, subject to the board’s approval in November 2022.</p> <p><u>Training and Education Strategies</u></p> <p>The most complex reporting inquiries related to educating employer partners on complicated topics escalate to the Training and Development (TaD) team. Shifting this work from Employer Help to TaD has improved response time and consistency of the responses. As they work these complex inquiries, they are positioned to leverage this experience to address employer training needs and identify trends. TaD received 784 inquiries and completed 769 from May through September 2022.</p> <p>In addition to this workload shift for complex inquiries, management continues its pilot of a quality management program to, initially, review 10% of the complex inquiry responses for accuracy and then expand the program’s methodology to sample more types and larger volumes of employer inquiries and interactions. There are two staff participating in the reviews for the pilot. The program standardized an email template for employer communication. The approach is to extend the process to other parts of our reporting including Employer Approved Edits, standardizing employer communication, the work order process and many of our workloads that impact employer reporting in Employer Help and the division. Staff working in the quality management pilot completed 100 reviews of inquiries against standard and 92% of them met the standards set in the pilot plan (all met content standards; errors were related to the new email response template and style inconsistencies in the responses). The pilot has been successful and will provide additional benefits to our employers if we expand the pilot into a permanent team and program. A request for additional staff to expand this pilot is included in the fiscal year 2023-24 budget request, subject to the board’s approval in November 2022.</p> <p>Employer training staff in Employer Services delivered 33 trainings from May through September 2022, serving 501 employer partners and 1,174 employer attendees. Staff have added new computer-based training modules to the learning management system and the training team has updated our existing job aids and created more interactive job aids to assist employers in determining the creditability of compensation.</p> <p><u>Employer Readiness</u></p> <p>The Employer Readiness Team in Employer Services continues to support our employer partners in submitting test New File Format reporting into the Employer Readiness Environment for the new Benefit Connect system. The team assists both employer partners with custom systems and those who use payroll system vendors. Using the readiness environment allows employers to understand the new format and business rules for contribution data and it can uncover unexpected system behavior which management escalates to the project for fixes and enhancements. The Employer Readiness Team conducted state-wide webinars in late summer to provide project and system status updates to maintain employer engagement with the effort.</p>

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the System’s and the STRP’s internal control over financial reporting. This letter is an integral part of audits performed in accordance with *Government Auditing Standards* in considering the System’s and the STRP’s internal control over financial reporting and compliance. Accordingly, this letter is not suitable for any other purpose.

The System's written responses to the deficiencies identified in our audits was not subjected to the auditing procedures applied in the audits of the System's financial statements and the STRP's Other Pension Information and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Crowe LLP". The word "Crowe" is written in a cursive, flowing style, while "LLP" is written in a more straightforward, blocky font.

Crowe LLP

Sacramento, California
October 6, 2022