



## **Audits & Risk Management Committee**

### **Item Number 3 – Open Session**

**Subject:** 2021 Independent Financial Statement Auditor’s Management Letter  
Progress Report

**Presenter(s):** Chairperson

**Item Type:** Consent Action

**Date & Time:** March 3, 2022 – 5 minutes

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**Attachment(s):** Attachment 1 – 2021 Independent Financial Statement Auditor’s  
Management Letter Progress Report as of December 2021

**PowerPoint(s):** None

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#### **PURPOSE**

The purpose of this item is to provide a status report on management’s progress towards implementing the recommendations included in the Independent Financial Statement Auditor’s Management Letter, dated October 11, 2021.

#### **DISCUSSION**

As part of the audit of CalSTRS’ basic financial statements for the fiscal year ended June 30, 2021, Crowe LLP prepared a Management Letter that cited one deficiency of internal control. This is a recommendation to improve internal controls over financial reporting related to the completeness and accuracy of member data, based upon information received from contributing entities. The Audits and Risk Management (ARM) Committee reviewed the Management Letter at the November 2021 meeting.

During an audit, the auditor may become aware of deficiencies in internal controls while obtaining an understanding of the entity and its control environment. A deficiency in internal controls exists when the design or operation of a control does not allow for management or staff, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. Any material and significant deficiencies are included in the Report on Internal Control over Financial Reporting. Otherwise, deficiencies that are not considered significant or

material are included in a Management Letter, which is not required to be reported to the board by the auditor. However, to promote transparency, CalSTRS' management presents the management letter, and updates on progress, to this committee. Overall, management is responsible for the design and implementation of internal controls over financial reporting.

Audit Services provides a status report (Attachment 1) that summarizes the deficiency and management actions towards implementing the recommendations. The committee will receive another status report at the July 2022 meeting to monitor the status of the findings before the next financial statement audit. Annually, the independent financial statement auditor, Crowe LLP, validates implementation of management's corrective actions and report the status to the Committee at the November 2022 meeting.