



Audits & Risk Management Committee

Item Number 2 – Open Session

Subject: Approval of Minutes of the November 2, 2022, Audits and Risk Management Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: March 1, 2023 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board –Audits & Risk Management Committee Meeting

November 2, 2022

OPEN SESSION

LOCATION: Board Room, 100 Waterfront Place, West Sacramento, CA 95605

COMMITTEE MEMBERS PRESENT

Betty Yee, State Controller, Chairperson

Denise Bradford, Vice Chairperson

Karen Yamamoto

Frank Ruffino, representing the State Treasurer, Fiona Ma

Jennifer Whitaker, representing the Director of Finance, Joe Stephenshaw

Blake Johnson, representing the State Superintendent of Public Instruction, Tony Thurmond

OTHER BOARD MEMBERS PRESENT

Michael Gunning

Lynn Paquin, representing the State Controller, Betty Yee

STAFF PRESENT

Cassandra Lichnock, Chief Executive Officer

Brian J. Bartow, General Counsel

Lisa Blatnick, Chief Operating Officer

Ashish Jain, Chief Technology Officer
Melissa Norcia, Chief Administrative Officer
Bill Perez, Chief Benefits Officer
Teresa Schilling, Chief Public Affairs Officer
Julie Underwood, Chief Financial Officer
Cheryl Cervantes Dietz, Chief Auditor
Scott Chan, Deputy Chief Investment Officer
Jeff Isham, Director, Facilities Management
Art Martinez, Director, Financial Planning, Accounting & Reporting
Fred Messerer, Assistant General Counsel
Reina Minoya, Assistant General Counsel
Rick Reed, System Actuary
Diane Stanton, Director, Public Affairs
April Wilcox, Director, Investment Services
Jeff Zimmer, Director, Employer Services
David Lamoureux, System Actuary
Bankole Fatunla, Manager, Financial Reporting & Investment Accounting
Roseanne Oyoung, Supervising Management Auditor, Internal Audits
Chris Wall, Supervising Management Auditor, Employer Audits
Phillip Burkholder, Risk Manager, Enterprise Risk Management & Quality Assurance
David Somers, Sr. Manager, Enterprise Compliance Services
Jennifer Miszkewycz, Senior Counsel

OTHERS PRESENT

Dr. Robert Yetman (Audits and Risk Management Committee Financial Expert)
Hamzeh Quattan, Crowe LLP
Kevin Smith, Crowe LLP
Cassandra Taylor, Crowe LLP
Pat Geyer, CalRTA
Don Stauffer, CTA/NEA-Retired

A quorum being present, Chairperson Yee called the Open Session meeting of the Audits and Risk Management Committee meeting to order at 9:04 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

MOTION duly made by Ms. Yamamoto, seconded by Mr. Johnson, and carried to approve the Committee Agenda.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Mr. Ruffino, for the State Treasurer	X		

Ms. Whitaker, for the Director of Finance	X		
Chairperson Yee	X		

II. APPROVAL OF MINUTES FOR THE JULY 7, 2022, AUDITS AND RISK MANAGEMENT COMMITTEE MEETING – OPEN SESSION (Item 2)

The committee approved the minutes for the July 7, 2022, Audits and Risk Management Committee Meeting – Open Session by unanimous consent.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Mr. Ruffino, for the State Treasurer	X		
Ms. Whitaker, for the Director of Finance	X		
Chairperson Yee	X		

III. 2022 AUDIT SERVICES AUDIT PLAN PROGRESS REPORT (Item 3)

The committee received and considered a progress report on the Audit Services Calendar Year 2022 audit plan, to include the employer audit progress report and the internal audit progress report, and the committee accepted the report without objection.

IV. CALSTRS INDEPENDENT FINANCIAL STATEMENT AUDITOR REPORTS FOR THE YEAR ENDED JUNE 30, 2022 (Item 4)

a. Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information

The committee received the report for the audit of CalSTRS Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information for the Fiscal Year ended June 30, 2022, from Mr. Smith, Ms. Taylor, and Mr. Quattan. The committee learned that the audit was both efficient and effective and an unmodified opinion based on the financial statements was issued, which is the highest level of assurance that can be provided. The committee learned that an identified uncorrected misstatement contained within the report was both quantitatively and qualitatively immaterial and unlikely to be reoccurring on an annual basis with market stability. The committee heard from Dr. Yetman who supports the handling of the uncorrected misstatement by both CalSTRS management and the auditors. The committee received an update that the report on internal controls did not include the new pension solution system and that the system will be included in the report once it has a financially significant impact on the financial statements. The committee learned that the discount rate of 7.1% is gross of administrative expenses and is consistent with the 7% adopted rate of return. The committee discussed the audit being

conducted remotely and learned that future audits would not be entirely remote and that it is anticipated that a hybrid approach will be adopted

MOTION duly made by Ms. Bradford, seconded by Ms. Yamamoto, and carried to accept the independent financial statement auditor reports from Agenda Item 4a, and adopt the proposed resolution in Attachment 4 of Agenda Item 4a.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Mr. Ruffino, for the State Treasurer	X		
Ms. Whitaker, for the Director of Finance	X		
Chairperson Yee	X		

b. Other Pension Information – State Teachers’ Retirement Plan

The committee received the report for the audit of CalSTRS Other Pension Information – State Teachers’ Retirement Plan for the Year Ended June 30, 2022. The committee learned that while CalSTRS is not required to publish the report, the report provides the state and other contributing entities the ability to prepare their financial statements in accordance with generally accepted accounting principles. The committee also learned that there were no deviations from either the scope or perspective of the audit and that no deficiencies were found. The committee learned that Crowe LLP received full and complete cooperation from CalSTRS management and that all requested documents were supplied within a reasonable time. The committee thanked Crowe LLP and CalSTRS staff for the work performed during the audit and recognized the volatility of the market and internal management changes during the period of time covering the audit.

MOTION duly made by Ms. Bradford, seconded by Ms. Yamamoto, and carried to accept the independent financial statement auditor reports from Agenda Item 4b.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Mr. Ruffino, for the State Treasurer	X		
Ms. Whitaker, for the Director of Finance	X		
Chairperson Yee	X		

V. 2022 MANAGEMENT LETTER (Item 5)

The committee received the Management Letter for the year ended June 30, 2022, as prepared by Crowe LLP which identified one deficiency in an internal control over financial reporting which were not considered to be significant or material. The committee heard from Ms. Dietz and learned that the deficiency reported were considered significant in previous years and are no longer significant due to the efforts of management to improve inaccurate or incomplete employer reporting through the use of data analytics, education, and resources. The committee also heard from Dr. Yetman that this is a reasonable deficiency to expect due to the issues impacting employers reporting to CalSTRS and the complexity of the law.

VI. 2023 ENTERPRISE COMPLIANCE SERVICES PLAN (Item 6)

The committee received a report on the 2023 Enterprise Compliance Services Compliance Plan (Compliance Plan) for the six-month period of January 1, 2023, through June 30, 2023. The committee heard from Ms. Underwood that the Compliance Plan will become a fiscal year plan upon completion of the maturity assessment and learned that the completion of the maturity assessment is a top priority of the current plan. The committee welcomed Mr. Somers, the new Sr. Compliance Manager for Enterprise Compliance Services.

VII. 2023 AUDIT SERVICES' AUDIT PLAN (Item 7)

The committee received the Audit Services proposed 2023 Audit Plan, which outlines the assignments to be carried out and their respective priorities, an overview of the Audit Services' mission, scope of work, independence and objectivity, and resource allocation. The committee heard from Mr. Wall regarding the three high-risk areas for Employer Audits and learned that there will be approximately 90-110 audits assigned in the proposed plan covering the high-risk areas. The committee received information that the list of potential employers to be audited, which is identified in the committee materials and will also be included on the Employer Audits website, is fluid, as employers are added or taken off as risks are assessed, and that employers will know what area(s) they are being audited once the audit is engaged. The committee discussed the instances in which members may get annual increases of more than 10%. The committee also learned that the audits are being conducted based on auditing principles and that the number of audits to be performed in the proposed audit plan is lower than the audits performed this year due to the anticipated impacts of AB 1667 and extended response times.

The committee also heard from Ms. Oyoung regarding the Internal Audits Risk Assessment and learned how the proposed audit plan aligns with both enterprise risk and the organization's strategic plan goals. The committee learned from Ms. Dietz that the proposed plan provides flexibility for other audit activities required by industry standards such as adequate administration and oversight of audits and other special projects or management requests.

The committee also received an update from Ms. Dietz on the 2022 audit plan and learned that 101 employer audits have been completed with 19 remaining audits to complete to meet projected goals. The committee learned about an audit of the Path Forward involving CalSTRS response to COVID which focused on the work performed by Human Resources and Facilities Management and a second audit of investment services and accounting performed by Grant Thornton. The committee learned that both audits had favorable results and that all processes and controls were working as expected. The committee also learned that all internal audits are conducted by CalSTRS staff with the exception of audits involving the specialized fields of technology and investments. The committee learned that internal staff will be imbedded within internal technology audits for training purposes as part of the 2023 audit plan. The committee also inquired about CalCards and learned that the cards are state issued credit cards used only for state business needs.

The committee heard from Ms. Geyer during public comment inquiring as to the reason why many districts are giving over 10% pay increases to teachers with an explanation provided by Ms. Bradford regarding wage increases during COVID.

MOTION duly made by Mr. Johnson, seconded by Ms. Bradford, and carried to approve the 2023 Audit Services Audit Plan.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Mr. Ruffino, for the State Treasurer	X		
Ms. Whitaker, for the Director of Finance	X		
Chairperson Yee	X		

VIII. REVIEW INFORMATION REQUESTS (Item 8)

There were no requests for information.

IX. DRAFT AGENDA FOR THE NEXT COMMITTEE MEETING (Item 9)

There were no changes to the draft agenda.

Ms. Bradford acknowledged that today was Chairperson Yee’s last committee meeting and thanked her for her service.

X. OPPORTUNITY OR STATEMENTS FROM THE PUBLIC (Item 10)

There were no additional statements from the public.

ADJOURNMENT

There being no further business to conduct, Chairperson Yee adjourned the Audits and Risk Management Committee meeting at 10:12 a.m.

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Cassandra Lichnock, Chief Executive Officer
And Secretary to the Teachers' Retirement Board

Betty Yee, Chairperson

Prepared by: Jennifer Miskewycz, Senior Counsel