



Audits & Risk Management Committee

Item Number 4 – Open Session

Subject: 2021 Internal Audit Plan Progress Report

Presenter(s): Chairperson

Item Type: Consent Information

Date & Time: November 4, 2021 – 0 minutes

Attachment(s): Attachment 1 – 2021 Internal Audit Plan – Employer Audit Mid-Year Progress Report

Attachment 2 – 2021 Internal Audit Plan – Internal Audit Mid-Year Progress Report

PowerPoint(s): None

PURPOSE

The purpose of this item is to present the Audit Services' Calendar Year 2021 internal audit plan progress report.

DISCUSSION

The Audits and Risk Management (ARM) Committee approved the Calendar Year 2021 Internal Audit Plan at the November 2020 meeting. In accordance with the Audit Services Charter and *International Standards for the Professional Practice of Internal Auditing*, Audit Services presents periodic reports to inform the Committee on the status of the annual audit plan and results.

Employer Audits

An overview of Employer Audit results, as of October 14, 2021, is included as Attachment 1. In summary:

- Staff completed 96 of the 106 employer audits in the plan. This includes 15 full-scope audits and 81 limited-scope audits.

The limited-scope audits focused specifically on either Unused Sick Leave, Post-Retirement Earnings, or Special Compensation. Data analytics were utilized to select employers with a greater likelihood of misreporting in these areas.

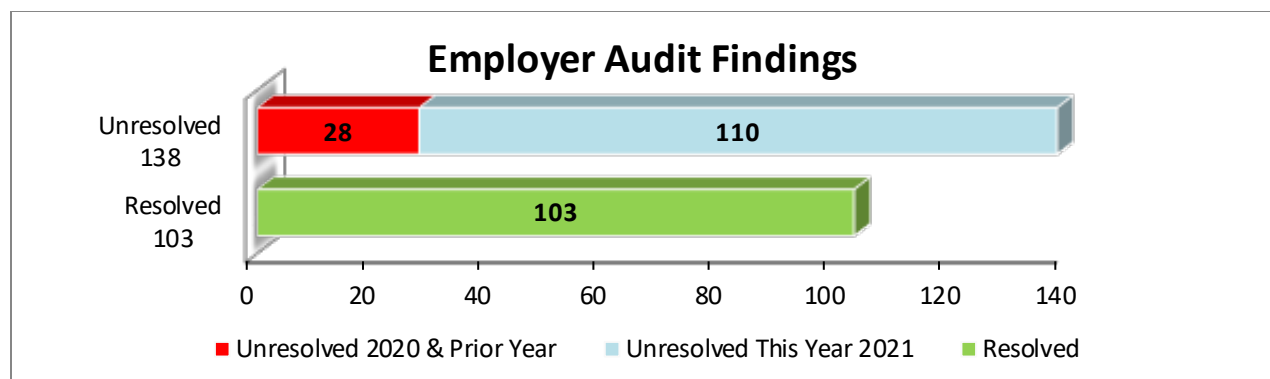
Overall, we found a total of 217 findings and 78 of the 96 employers audited (81 percent) had at least one systemic finding. Additionally, eleven of the 96 employers audited (11.5 percent) had no findings.

Status of Findings – Employer Audit

During the nine-month period from January 1, 2021, through September 30, 2021, the employer audit team reported 90 new findings. During the same period, 103 employer audit findings from both previous and current years were resolved. Overall, 138 findings remain in progress, which consists of the following:

- Twenty-eight audit findings from the prior year
- One hundred and ten audit findings from the current year

Illustration 1: Employer Audit Findings



CalSTRS Member Account Services assists Employers to correctly report items found to be misreported to CalSTRS. Member Account Services continues to work with the Employer to correct unresolved prior year findings. Audit Services validates the Employer correctly reported items found to be misreported before classifying a finding as resolved.

Internal Audits

Internal Audit Results

For this reporting period, Internal Audits issued two final audit reports on Technology Procurement Services and Workforce & Succession Planning. Audit report summaries are located on pages 2 through 5 of Attachment 2. In addition, Internal Audits substantially completed consulting engagements for Unresolved Payments and Multiple Benefit Payments. Currently, Internal Audits has two audits in progress:

- Production Data & Application Deployment
- Third Party Vendor: Genesys Telecommunications Laboratories, Inc.

Contracted Audit Results

Audit Services contracts with external audit firms to perform specialized audits of CalSTRS Information Technology Services and Investments. For this reporting period, staff facilitated

completion of two investment audits: 1) Cash Management, and 2) Innovative Strategies. Summaries for these audit reports are located on pages 6 through 8 of Attachment 2. In addition, the following two contracted audits are in progress:

- Information Security
- Account Management and Performance Reporting

Status of Internal Audit Findings

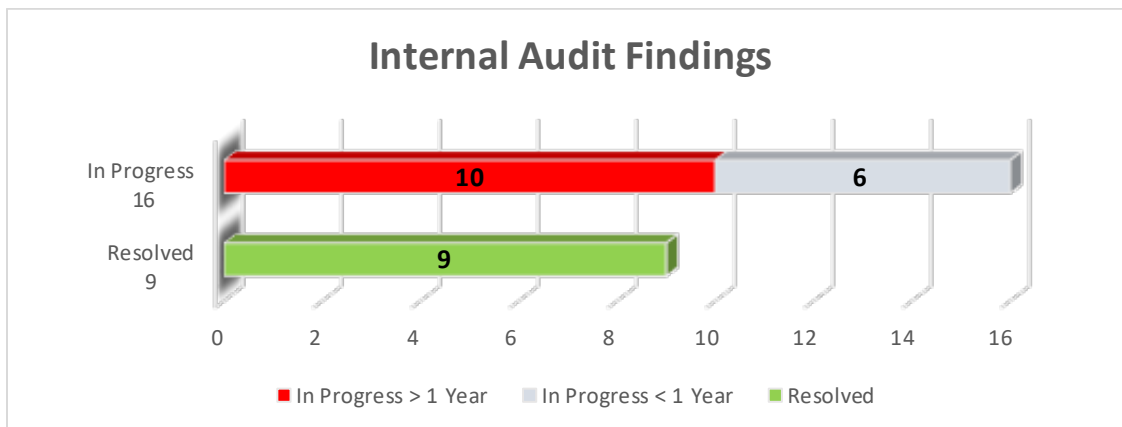
The primary benefits of audits are not realized until effective and timely actions are taken by management to resolve findings by implementing agreed upon recommendations. Audit Services followed up on the status of findings that were in progress from prior issued reports. These findings relate to the following topics:

- Governance
- Process improvements
- Oversight and monitoring
- Information technology and security

Management is responsible for providing internal audits with corrective actions to resolve outstanding audit findings. Without timely resolution, management is essentially accepting the risks associated with those findings that are in progress of being resolved. The status of management’s corrective actions is summarized on pages 9 through 14 of Attachment 2.

From June 2021 through September 2021, management resolved 9, or 36 percent, of the 25 outstanding internal audit findings demonstrated below:

Illustration 2: Internal Audit Findings



Of the 25 outstanding findings, nine were added from audits recently completed and reported at the July 2021 ARM Committee meeting. Audit Services verifies a finding’s resolution when management reports it as resolved. All resolved findings are included in the report period where management fully implemented the corrected actions, and Audit Services verified the finding’s resolution.

Employer Audit Reports Issued from January 1, 2021, to October 14, 2021

	Employer	Date Issued	Systemic Reporting Error	Number of Findings
1	San Maino USD	1/14/2021	YES	1
2	The Education Corps	1/14/2021	YES	6
3	Oroville City ESD	1/14/2021	YES	5
4	Contra Costa COE	1/14/2021	NO	5
5	Solano COE	1/14/2021	YES	1
6	Ace Charter	1/14/2021	NO	2
7	San Carlos Elementary SD	1/14/2021	YES	2
8	Kingsburg Joint Union High	1/14/2021	YES	2
9	College Bridge Academy	1/14/2021	YES	4
10	Franklin-McKinley Elementary	1/21/2021	NO	0
11	Lancaster Elementary	1/21/2021	YES	2
12	Youthbuild Charter of California	1/21/2021	YES	7
13	Corcoran Joint USD	1/28/2021	NO	0
14	Bonsall Unified School District	1/28/2021	NO	0
15	Nevada Joint Union High	1/28/2021	YES	2
16	Santa Barbara USD	2/4/2021	YES	2
17	Compton USD	2/11/2021	NO	2
18	Yreka Union Elementary	2/18/2021	NO	1
19	Bret Harte UHSD	2/18/2021	NO	1
20	McFarland USD	2/18/2021	YES	2
21	Central Elementary	2/18/2021	NO	0
22	Santa Rosa Junior College	2/25/2021	YES	1
23	CCVS-Sage Oak	2/25/2021	YES	2

Employer Audit Reports Issued from January 1, 2021, to October 14, 2021

	Employer	Date Issued	Systemic Reporting Error	Number of Findings
24	Summerville USD	2/25/2021	YES	3
25	Vallejo City USD	3/4/2021	YES	2
26	Brawley Elementary	3/11/2021	YES	4
27	Las Lomas Elementary	3/11/2021	NO	0
28	Allan Hancock Joint Community	3/18/2021	YES	2
29	Wasco Union Elementary	3/25/2021	NO	0
30	San Diego Virtual School	3/25/2021	YES	3
31	Calaveras USD	4/1/2021	YES	8
32	Colusa COE	4/1/2021	YES	4
33	Los Nietos	4/1/2021	YES	2
34	Campbell Union High	4/8/2021	YES	1
35	Brisbane Elementary	4/8/2021	YES	2
36	Castro Valley USD	4/15/2021	YES	3
37	Selma Unified SD	4/15/2021	YES	1
38	Wasco Union High	4/15/2021	NO	3
39	Sonora High SD	4/15/2021	YES	1
40	Yuba CCD	4/15/2021	YES	2
41	North Monterey County USD	4/15/2021	YES	1
42	Coalinga-Huron Joint USD	4/15/2021	YES	3
43	Pittsburg USD	4/15/2021	YES	2
44	Port of Lost Angeles High	4/22/2021	YES	4
45	Brentwood Union Elementary	4/29/2021	YES	1
46	Mission Vista Academy	4/29/2021	NO	0
47	Excellent Performance Innov	5/13/2021	YES	2
48	Woodside Elementary	5/13/2021	YES	2
49	Central USD	5/13/2021	YES	5

Employer Audit Reports Issued from January 1, 2021, to October 14, 2021

	Employer	Date Issued	Systemic Reporting Error	Number of Findings
50	Vacaville Unified SD	5/13/2021	NO	1
51	Delano Joint Union High	5/20/2021	NO	0
52	Sutter Union High	5/20/2021	YES	1
53	Calexico USD	5/20/2021	NO	0
54	Livermore Valley Joint USD	5/20/2021	YES	4
55	Sunrise Middle School	6/3/2021	YES	4
56	Mendota USD	6/10/2021	YES	2
57	Pollock Pines Elementary	6/10/2021	YES	3
58	Buellton Union Elementary	6/17/2021	YES	1
59	Champs-Charter HS of Arts	6/17/2021	YES	2
60	Antelope Valley USD	7/1/2021	YES	2
61	Bellevue Elementary	7/8/2021	YES	4
62	Fremont Union HSD	7/8/2021	YES	4
63	Fresno Unified School District	7/15/2021	YES	1
64	Riverbank USD	7/15/2021	YES	3
65	Arvin Union Elementary	7/15/2021	YES	2
66	Washington USD	7/15/2021	YES	3
67	Pacific Coast Academy (Inspire)	7/22/2021	YES	4
68	Arts in Action Community Charter	7/22/2021	YES	3
69	San Gabriel USD	7/22/2021	YES	1
70	Chico USD	7/22/2021	YES	3
71	Yosemite Valley Charter School	7/29/2021	NO	0
72	Dos Palos-Oro Loma Joing USD	7/29/2021	YES	2
73	Feather River CCD	8/12/2021	YES	3
74	Ventura CCD	8/12/2021	NO	0

Employer Audit Reports Issued from January 1, 2021, to October 14, 2021

	Employer	Date Issued	Systemic Reporting Error	Number of Findings
75	Washington USD	8/12/2021	YES	2
76	Antioch USD	8/12/2021	YES	5
77	Monrovia USD	8/19/2021	YES	1
78	Chawanakee USD	8/19/2021	YES	2
79	Duarte USD	8/19/2021	YES	1
80	Sonoma Valley USD	9/9/2021	YES	1
81	Cabrillo Coast Academy	9/9/2021	YES	5
82	California Pacific Charter School	9/9/2021	YES	3
83	San Luis Obispo County Community	9/9/2021	YES	3
84	Delano Union Elementary	9/16/2021	YES	1
85	Lazear Academy	9/16/2021	YES	3
86	Coronado Unified School District	9/16/2021	YES	1
87	Blue Ridge Academy	9/16/2021	YES	5
88	PUC CALS Middle School	9/16/2021	YES	4
89	Moreland Elementary	9/23/2021	YES	3
90	Moreno Valley USD	9/30/2021	YES	1
91	Pacific Grove USD	10/7/2021	YES	3
92	Fontana USD	10/14/2021	YES	3
93	Natomas Charter	10/14/2021	YES	1
94	Yu Ming Charter	10/14/2021	YES	2
95	Redlands USD	10/14/2021	YES	1
96	Cutler-Orosi JUSD	10/14/2021	YES	2
	Totals	96	78	217

Notes:

Yes - 77 audits disclosed a high risk of systemic reporting errors related to incorrect reporting of compensation, sick leave, or post-retirement earnings data which could potentially impact the district and member accounts.

7 No Finding Audits

Limited Scope & Full Scope Audits – Employers with Systemic Findings			
	Audits	Employers with Systemic Findings	Percentage of Employers with Systemic Findings
Limited-Scope Audits	81	65	80%
Full-Scope Audits	15	13	86%
Totals	96	78	81%

2021 Internal Audit Plan – Internal Audit Mid-Year Progress Report

TECHNOLOGY PROCUREMENT SERVICES

Objective: To assess the adequacy and effectiveness of the technology procurement process.

Scope: To achieve our objective, Internal Audits reviewed policy and procedures, the Business Contract Handbook, and Technology Services’ Customer Service Plan with procurement guidelines. Internal Audits also interviewed staff to gain an understanding of the technology procurement process. To evaluate controls, we selected a sample of exempt purchases, solicitations, and vendor selections to determine if processes were adequate and consistent with Procurement requirements. The audit period was January 1, 2020 through December 30, 2020.

Effective Practices: Enterprise Information Technology Governance(EITG):

- Developed a detailed Customer Service Plan which is a manual that provides guidance on solicitation, contract, vendor, and asset management processes.
- Has a policy, written procedures, and job-aids related to the technology procurement process.
- Has a process for information technology contracts to be reviewed by Procurement Services and the Office of General Counsel

Strategic Plan: Organizational Strength: Grow capacity and enhance efficiency in alignment with the mission and vision.
Objective B: Improve business processes and reduce cost.

RISK: THE EXEMPT PROCUREMENT PROCESS MAY NOT BE CONSISTENT WITH THE PROCUREMENT REQUIREMENTS.	
<i>Results</i>	<i>Management Action</i>
<p>◆ EITG processes Technology Services’ (TS) procurement which includes both goods and services through an exempt or solicitation process. During the review, Internal Audits identified one exempt procurement did not have appropriate, prior, written approval and justification for the vendor selection.</p>	<p>EITG will work with Procurement Management to develop, implement, and document an effective control(s) over the processing of non-competitive bids, to ensure compliance with the Exception to Competitive Bidding Policy and the Business Contract Manager Handbook.</p> <p>Target Completion Date: Complete and validated by Audit Services.</p>

WORKFORCE AND SUCCESSION PLANNING

- Objective:** To evaluate the adequacy and completeness of workforce and succession planning.
- Scope:** Our audit scope consisted of an evaluation of governance over workforce and succession planning and the adequacy and completeness of the current workforce and succession plans. To achieve our objective, we reviewed Human Resources (HR) monitoring and communication tools, California Department of Human Resources’ (CalHR) Workforce Policy, and industry best practices for workforce and succession planning. Additionally, we reviewed best practices for resource capacity in workforce planning and determined staffing needs were not within the scope of this audit. The audit period was January 1, 2020 through December 31, 2020.
- Effective Practices:** Human Resources:
- Creates a workforce and succession plan that includes workforce analysis, identification of core competency gaps, and aligns with the strategic plan.
 - Prepares an annual Workforce Overview and is made available on SharePoint for leadership review.
 - Reports workforce metrics at a high-level to Enterprise Strategy Management and are reflected in the Operations Performance Review.
- Strategic Plan:** Workforce Transformation, Goal 4: Grow capacity and enhance efficiency in alignment with the mission and vision.
Objective D: Hire, develop and retain staff to meet the needs of our changing business models and growth expectations.

RISK: CALSTRS' STRATEGIC GOALS MAY NOT BE MET DUE TO INADEQUATE GOVERNANCE OF THE WORKFORCE AND SUCCESSION PLANS.

<i>Results</i>	<i>Management Action</i>
<p>▲ 1. Opportunities exist for enhanced governance over workforce and succession planning.</p> <p>A. HR prepares informative and useful documents that support workforce and succession planning, such as the Workforce and Succession Plans (Plans) and the Branch Workforce Overview (BWO). The processes involved are not formally written in procedures. Documenting the processes ensures consistent preparation and governance of the Plans.</p>	<p>A. Human Resources agrees with this finding. We acknowledge that there have been deficiencies in documentation of processes. Workforce and Succession Planning has begun to document the procedures for the associated business processes with a targeted completion date of January 21, 2022. We will then consolidate these documents into a desk manual which will be kept current at all times.</p> <p style="text-align: right;">Target Completion Date: January 2022</p>

WORKFORCE AND SUCCESSION PLANNING (continued)

RISK: CALSTRS’ STRATEGIC GOALS MAY NOT BE MET DUE TO INADEQUATE GOVERNANCE OF THE WORKFORCE AND SUCCESSION PLANS.

<i>Results</i>	<i>Management Action</i>
<p>B. The BWO includes branch-specific information, such as retention rate, branch analysis and a separate action plan. We were unable to validate consistent communication of the branch action plan to business leaders. Industry leading practices suggest annual evaluation of the workforce profile to address changing priorities.</p> <p>Communicating the need for branch’s refresh of their action plans ensures branches are working toward completion of branch specific goals.</p>	<p>B. We agree with the auditors' recommendations, and the following action has already been completed. The Desk Procedure for the Branch Workforce Overview (BWO) was completed on June 29, 2021 and is attached to this response. BWOs contain branch workforce data, which are compared and analyzed in conjunction with the Employee Engagement Survey results. HR will continue to complete the BWOs biennially as the engagement survey is administered biennially, and the BWO is designed to pair with the survey. However, HR will consider the recommendation to annually communicate to the branches the need to refresh their respective action plans.</p> <p>Target Completion Date: Completed but not yet validated by Audit Services.</p>
<p>C. HR activities to support recommendations mentioned within the Plans are tracked, such as diversity and inclusion education in onboarding; redesigned performance appraisal process; and continuous expansion of SharePoint as a workflow and efficiency tool. We were unable to validate the tracking spreadsheet was updated quarterly, as indicated, and by whom.</p> <p>Identifying roles and responsibilities, plans and timelines with consistently documented procedures will ensure consistency and completeness of the work.</p> <p>Formally documenting processes demonstrates consistency and assurance that processes are working as intended.</p>	<p>C. Recommendations made in the plans are tracked on a quarterly basis. Emails are sent to recommendation owners, and their responses are then recorded on the WFP-LDSP Recommendations Status Tracking Sheet. The information recorded on the WFP-LDSP Recommendations Status Tracking Sheet then feeds directly to the Personnel Services Metrics WFP Excel file and reported annually by the HR Operations team. Formal documentation of this process will be highlighted in the Desk Manual documents for the Workforce and Succession Plans.</p> <p>Target Completion Date: November 2021</p>

WORKFORCE AND SUCCESSION PLANNING (continued)

RISK: THE WORKFORCE AND SUCCESSION PLANS MAY NOT BE CONSISTENT WITH BEST PRACTICES.

<i>Results</i>	<i>Proposed Management Action</i>
<p>■ 2. In 2018, HR prepared a model workforce and succession plan. Most of the CalHR requirements were included in the HR succession planning process. However, we noted a documented methodology for assessing the talent pipeline’s current competencies and overall readiness was not included. In addition, we noted the identification of current and future competency gaps and an action plan for addressing gaps for each key position was not consistently completed.</p>	<p>At CalSTRS, we assess competencies using the Annual Performance Review or probationary processes. Both processes and the reports used to document employee performance are based on the competencies needed for each position. In the next plan iteration, we will explicitly state that we leverage the aforementioned processes as the methodology for competency assessment.</p> <p>The CalSTRS Mission Critical Position Management program/process is a newer undertaking. We continue to grow the program to identify current and future competency gaps and action plans to address the gaps for identified mission critical positions. Our objective is to complete action plans for currently identified mission critical positions by June 30, 2022. However, the nature of this program/process is active and ongoing with no true “completion date.”</p> <p>Target Completion Date: June 2022</p>

CASH MANAGEMENT – Grant Thornton

Objective: The objective of the 2021 Cash Management Internal Audit review was to assess the design and operating effectiveness of controls governing CalSTRS' key cash management processes.

Scope: The areas examined included the following:

- Policies and procedures relevant to cash management were documented, adequate, and consistently followed.
- Cash management process completed timely and efficiently; consistent with investment policy and cash allocation target, ensuring sufficient funds to meet immediate commitments.
- Timely and effective communication between Financial Services and Investment functions.
- Appropriate authorization and internal controls for transfer of funds.
- Review timeliness and completeness of deposit and bank reconciliation practices.
- Comprehensive listing of disbursements for benefits (retirement, disability, or death), refunds, and administrative operational expenses.
- Comprehensive listing of various cash receipts such as employer contributions, member contributions, investment income, State and service purchases.
- Prepare, document, and monitor cash forecasts.
- Compare and document actual cash flows with the cash forecast monthly; adjust remaining cash forecasts and the cash forecasting process as appropriate.
- Monitor employment cycles, external events, and governing body actions which may affect cash flows and adjust.
- Separation of duties between forecasting, accounting, and investing.

Internal Audit examined the design and operating effectiveness of the internal control environment governing Cash Management and noted no findings related to the execution of internal controls. Internal Audit identified one issue related to the design of a system used for cash forecasting, but otherwise the overall internal control environment is considered to be designed and operating adequately.

Effective CalSTRS effectively performs the following:


- Practices:**
- Investment Operations monitors minimum balances for key cash accounts daily and replenishes as needed
 - Financial Services separates the reviewer and approver roles for cash forecasts, transfers, and reconciliations
 - Investment Operations regularly monitors cash position and performance against allocation targets set by the Board
 - Investment Operations and Financial Services teams maintain frequent communications while keeping tasks separate.

Strategic Ensure a financially sound retirement system.

Plan: Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.

CASH MANAGEMENT – Grant Thornton (continued)

RISK: THE CASH POSITION AND FORECASTING LEGACY DATABASE MAY BE UNSUPPORTED.

<i>Results</i>	<i>Management Action</i>
<p> 1. The Access database used for the daily cash position & forecasting process, originally created as a short-term strategy, requires significant manual data entry and review to produce final outputs, requires regular archiving of data, is cumbersome to modify, and is not supported by IT technical support within CalSTRS.</p> <p>Internal Audit did not note any instances in which the cash position or cash forecasts from use of this tool were inaccurate. Internal Audit also did not note any control operations failures associated with the use of the tool.</p>	<p>Management agrees with the observations. As such, CalSTRS is currently undergoing a short-term mitigation strategy to document a set of procedures to manually perform the cash position and forecast in the event of a failure with the Access database.</p> <p>In doing so, management will consider improvements in the process and the cross training of additional key personnel to limit the risk of key person dependencies. In addition, management will begin looking into options to obtain technical expertise for the on-going support and maintenance of the Access database as well as exploring alternative solutions that allow for a more fully automated and supportable cash position and forecasting process.</p> <p>Target Completion Date: October 2021</p>

INNOVATIVE STRATEGIES – Macias, Gini & O’Connell

Objective: The objectives included identifying the risks and related mitigating controls inherent to CalSTRS’ Innovative Strategies management processes listed below:

- Governance/ Reporting
- New Product/ Strategy Approval
- Third Party/ External Manager Approval and Oversight
- Transaction Execution, Capture, Confirmation
- Pricing and Valuation
- Incubation, Asset Transfers, and Defunding

Scope: Procedures included reviewing supporting documentation provided by CalSTRS personnel for sample selections of transactional populations related to the processes identified above, as well as analytical procedures of full data populations for certain trade execution processes. The scope of the internal audit of the Innovative Strategies Investment Portfolio included investment activity occurring during the period of January 1, 2020 through December 30, 2020.





Results: Based on our procedures performed, the operational, compliance, accounting, and reporting functions related to CalSTRS’ Innovative Strategies Investment Portfolio were managed in accordance with established policies, guidelines, and procedures for the period of January 1, 2020 through December 30, 2020. Additionally, we evaluated the risks and mitigating controls associated with CalSTRS’ Innovative Strategies Investment Portfolio and did not identify instances that would rise to the level of written observations. However, we did communicate verbal recommendations to management related to updating documented procedures to ensure consistency with mitigating controls performed.

Strategic Plan: Ensure a financially sound retirement system.
Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.

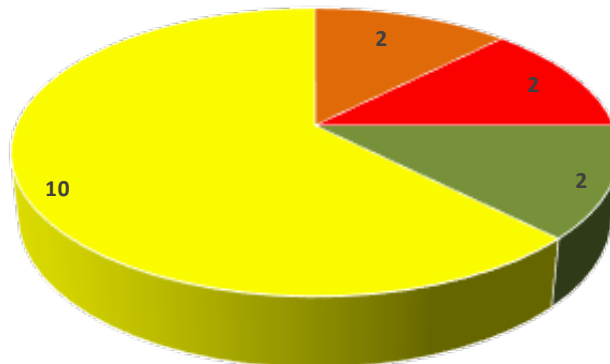
FOLLOW UP ON INTERNAL AUDIT FINDINGS

Following is a summary of the status of corrective actions for internal audit findings as of September 30, 2021. Management actions and the status of audit findings over one year with the highest rating (◆) may be accessed through the link provided on the summary. Resolved findings are reported to the committee upon corrective action implementation but do not appear in subsequent status reports. Each finding is rated using the following Finding Significance Rating Scale.

FINDING SIGNIFICANCE RATING SCALE

	Design of controls is adequate in addressing key risks, providing a reasonable level of assurance that objectives are being achieved. Controls/policies/procedures are documented, up-to-date, and monitored. Controls are fully implemented and operating effectively and efficiently. Identified high level of compliance with laws/regulations/policies/procedures. Some improvement opportunities have been identified but not yet actioned.
	Design of controls is adequate and effective in addressing key risks, but do not provide complete assurance that all objectives will be achieved. Controls/policies/procedures are documented, up-to-date, and monitored, but there are some gaps in the documentation relied upon to provide evidence that the key controls are operating effectively. Controls are operating as intended, but there is opportunity to improve the effectiveness or efficiency of the control. Identified general compliance with laws/regulations/policies/procedures with a few minor exceptions. There are some opportunities to improve existing controls, strengthen compensating controls and/or awareness of the controls.
	Design of controls only partially address key risks, but do not provide adequate assurance that all objectives will be achieved. Controls/policies/procedures documentation is incomplete, unclear, or outdated, and not monitored. Controls are not operating consistently and/or effectively or have not been fully implemented. Unable to confirm the effective operation of key controls. Examples of non-compliance with laws/regulations/policies/procedures and there are opportunities to develop new controls to provide a more appropriate level of assurance. There is a cost/benefit advantage to implement improvement opportunities.
	Design of controls is ineffective in addressing key risks or no process exists to manage the risk. Controls/policies/procedures documentation does not exist. Controls are not in operation or have not yet been implemented. There are significant breaches of compliance with laws/regulations/policies/procedures. Immediate need for corrective and/or improvement actions to be undertaken.









Findings In Progress by Significance Rating

















SUMMARY OF INTERNAL AUDIT FINDINGS






Resolved – Audit Services validated finding is resolved by management’s corrective actions.



In Progress – Management is in the process of addressing the audit finding.

SUMMARY - Findings Over One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
IT Backup Management		Resolved	Finding 2B: Servers supporting a Tier 2 application were not backed up regularly.
BusinessDirect General Controls		Resolved	Finding 3A: The BD password settings for administrators, contractors and vendors are not in line with the password policy.
Data Governance		In Progress	Finding 2B: Data owner and data steward training and communication to new and existing staff could be formalized.
IT Service Management– Change Management		In Progress	Finding 3: CLA found some Emergency Changes were inconsistently documented and there was not a clear differentiation between those changes that were conducted during business hours and after hours.
		In Progress	Finding 5: CLA learned that in some cases, "routine" changes, such as replacement of failed hard disks or other redundant hardware components that do not require a service interruption, are performed without RFC documentation.
		In Progress	Finding 6: In some instances, CalSTRS did not submit Minor Change RFCs with the policy-defined approval lead-time of three days prior to implementing the change.
Incentive Compensation		Resolved	Finding 1: HR relies on a key experienced staff for processing of incentive compensation. Ensuring more than one staff has the knowledge to process incentive compensation increases operational efficiency and effectiveness.
IT Service Management– Patch Management		In Progress	Finding 1 : Due to technical limitations of the patch deployment system, remote laptop devices may not be patched at the same frequency as devices which are regularly connected to the CalSTRS private network.

SUMMARY - Findings Over One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
IT Service Management– Patch Management (cont.)		In Progress	Finding 2: There is no formal process for tracking the time between when an individual vulnerability is detected and remediated.
		In Progress	Finding 3: Detected vulnerabilities are not tracked through remediation and defined risk categories are not being consistently assigned.
		In Progress	Finding 7: CalSTRS has not clearly assigned responsibilities for vulnerability detection, reporting, and remediation. There is no common accountability mechanism used by both the ISO and Technology Services to track vulnerabilities and ensure they are remediated.
		In Progress	Finding 8: Vulnerability reports are published to the ISO SharePoint site and patching reports are published by Technology Services to their SharePoint site, but the reports are not coordinated, and only limited portions of the data are reported to management.
		Resolved	Finding 9: There does not appear to be a central patch management coordination process.
IT Service Management– Service Request Management		In Progress	Finding 3: Ticket Expectations documents provide guidelines to Technology Services regarding how and when to escalate requests, but there are no guidelines published for consumers of technology services regarding request escalation.

SUMMARY - Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
Pension Benefit Information, LLC (PBI)		Resolved	Finding 1D: PBI does not participate in the Disabled Veteran Business Enterprise (DVBE) as required by the contract.
		In Progress	Finding 1F: Although PBI is providing the Death Match and Obituary Match files using the Secure File Transfer Process, the reports are not provided in required PDF and Excel formats. Instead, the files are sent in text format, and CalSTRS must convert the files into Excel for use.
Pension Benefit Information, LLC (PBI) (cont.)		In Progress	Finding 1H: PBI is required to submit Death Match response files with five required elements. Death Match response files sampled were missing two of the five required elements. This can result in CalSTRS performing additional research to obtain pertinent data.
		In Progress	Finding 1I: PBI is required to submit monthly Obituary Match response files with seven required elements. Obituary Match response files sampled were missing three of the seven required elements. This can result in CalSTRS performing additional research to obtain pertinent data.
		In Progress	Finding 1J: PBI is required by contract to submit semi-annual Obituary Match response files with seven required elements. Obituary Match response files sampled were missing three of the seven required elements. This can result in CalSTRS performing additional research to obtain pertinent data.
Fixed Income Investments		Resolved	Finding 1: Best execution is referenced in the Fixed Income Core Portfolio Guidelines as an objective to achieve for the Fixed Income portfolio. In addition, there is a process in place where the Fixed Income trader captures competitive bids via trade notes for each trade. However, there are no formal procedures and management oversight (i.e., best execution committee or oversight group) in place to ensure the fixed income team, overall, consistently seeks to achieve best execution.
BusinessDirect - Application Controls		In Progress	Finding 1: Organizations have business rules that need to be followed. CalSTRS has minimal validation rules set up in the system to prevent incorrect or invalid manual financial postings. BD can be set up to ensure that a combination of account string objects is allowed or not allowed. However, CalSTRS has other manual controls that currently exist outside of the BD system that mitigate the risks.
		Resolved	Finding 2: In the Fixed Assets module, once a fund has been tagged to an asset, it should not be changeable. CalSTRS has not enabled the BD control to prevent asset shells being changed after postings have been recorded.

SUMMARY - Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
BusinessDirect- Application Controls (cont.)		Resolved	Finding 3: BD application control is not in place to prevent the modification of the delivery address in the system. CalSTRS has a manual review control in place. The reviewer validates address details on the invoice during the review process.
		In Progress	Finding 4: Posting to General Ledger (GL) Accounts being used in full accrual and modified accrual methods of accounting should be strictly moderated. If there are cross-postings to these accounts, there is a potential for reports being out of balance. BD for the Public Sector uses the accounts approach to manage different methods of accounting. It was observed an entry could be made in the system that would result in balance sheet reports, for a specific method of accounting, to be incorrect.
		In Progress	Finding 5: There are certain GL accounts that should be allowed to be used in posting Accounts Payable (A/P) invoices. These GL accounts are marked statistical and not subject to funds availability. It is noted that CalSTRS mitigates this risk by using workflow in which a manager will review and reject the posting if deemed incorrect.
		Resolved	Finding 6: BD does not have any application controls to prevent invalid postings on Purchase Order related invoices using transaction MIRO. In this transaction, there is a tab where users can enter any GL line item. Users can alter the amount to be paid to a vendor versus the amount authorized on the purchase order. Organizations have business rules that need to be followed. CalSTRS uses electronic workflow and reviews to catch these issues.
		In Progress	Finding 7: In the vendor invoice, the reference field holding the external invoice number, often a mandatory field for the vendor invoice number, needs to be unique. BD flags invoices as duplicate when the reference field, in combination with the Vendor ID and Amount, is being entered again into the system. This field once tagged to an invoice should not be changeable. In BD, a user may change the value in the reference field after an invoice document is posted.

SUMMARY - Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
BusinessDirect - Application Controls (cont.)		Resolved	Finding 8: There are certain fields in the Asset Master Data that should not have been activated for entry to prevent incorrect postings. One such field is the Fund Center Field that can be changed freely at any time.
		In Progress	Finding 9: Cash postings should be controlled or moderated. When being used, appropriate account strings should be carefully selected. It is observed that a cash account can be posted to a Profit Center and business area combination that are not valid.

Highest Rated Finding Over One Year Old

IA19-023 IT Service Management – Patch Management

Report Date: February 27, 2020

Finding 1: Due to technical limitations of the patch deployment system, remote laptop devices may not be patched at the same frequency as devices which are regularly connected to the CalSTRS private network. – In Progress

Background

CalSTRS employs multiple layers of security for remote users who do not regularly connect directly to the CalSTRS network. Remote users are expected to go to CalSTRS facilities and connect to the network once a month at which time their devices are patched.

Management Action

CalSTRS is in process of implementing a method for delivering patches remotely which should be in place by 12/31/2020.

Status Per Management

Significant progress in remote patch management has occurred. Effort to further improve patching and associated tools is on-going. Target completion date was updated from December 2020 to December 2021.