



Audits & Risk Management Committee

Item Number 2 – Open Session

Subject: Approval of Minutes of the July 9, 2021, Audits and Risk Management Committee – Open Session – Revised

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: November 4, 2021 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board –Audits & Risk Management Committee Meeting

July 9, 2021

OPEN SESSION

LOCATION: Web Conference

COMMITTEE MEMBERS PRESENT

Betty Yee, State Controller, Chairperson

Joy Higa, Vice Chairperson

Karen Yamamoto

Jennifer Whitaker, representing the Director of Finance, Keely Bosler

Frank Ruffino, representing the State Treasurer, Fiona Ma

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

OTHER BOARD MEMBERS PRESENT

Denise Bradford

Sharon Hendricks

Harry Keiley

William Prezant

Jennifer Urdan

Lynn Paquin, representing the State Controller, Betty Yee

STAFF PRESENT

Cassandra Lichnock, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Brian J. Bartow, General Counsel
Lisa Blatnick, Chief of Administrative Services
Ashish Jain, Chief Technology Officer
Bill Perez, Chief Benefits Officer
Teresa Schilling, Chief Public Affairs Officer
Julie Underwood, Chief Financial Officer
Scott Chan, Deputy Chief Investment Officer
Shifat Hasan, Director, Investment Performance & Compliance
Glenn Hosokawa, Director, Fixed Income
June Kim, Director, Global Equities
April Wilcox, Director, Investment Services
Diane Stanton, Director, External Affairs
Lucy Arbuckle, Director, Accounting
Jan Spano, Director, Enterprise Strategy Management
Larry Jensen, Chief Auditor
Cheryl Cervantes Dietz, Enterprise Compliance Services Director
Roseanne Oyoung, Supervising Management Auditor, Internal Audits
Jeff Zimmer, Director, Employer Services
Rick Reed, System Actuary
Trevor Young, Counsel

OTHER PRESENT

Dr. Robert Yetman (Audits and Risk Management Committee Financial Expert)
Jennifer Baker, CalRTA
Joe Bartell, CTA
Susie Chow, UTLA-R
Orval Garrison, CTA/NEA-Retired
Leonard Goldberg, UTLA
Richard Hansen, CCCI
Randy Harris, Laborer's International Union of North America Midwest Region
Dr. Sandy Keaton
Kathleen McCreery, ACSA
Peter Morse, SMC Faculty Association President
Doug Orr, CFT
Mary Kay Scheid, CTA
Kevin Welch, CTA

A quorum being present, Controller Yee called the Open Session meeting of the Audits and Risk Management Committee meeting to order at 9:00 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

The committee removed Item 3 from the consent agenda to provide an opportunity to discuss the report.

MOTION duly made by Mr. Ruffino, seconded by Ms. Whitaker, and carried to approve the amended Committee Agenda by unanimous consent.

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

II. APPROVAL OF MINUTES FOR THE MARCH 5, 2021, AUDITS AND RISK MANAGEMENT COMMITTEE MEETING – OPEN SESSION (Item 2)

The committee identified revisions to the minutes and directed staff to make these changes.

The revised minutes of the March 5, 2021 Audits and Risk Management Committee Meeting – Open Session were approved by unanimous consent of the committee.

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

III. PROGRESS REPORT ON THE 2020 INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MANAGEMENT LETTER (Item 3)

The committee received and considered a report on management’s progress in implementing the recommendations included in the Independent Auditor’s Report on Internal Control Over Financial Reporting and Management Letter, dated October 22, 2020. The committee also received an update regarding changes to the policies and procedures for reporting fair value measurements of private equity co-investments. Ms. Underwood informed the committee that a new assessment tool had been implemented for the June 2021 financial statements, a third-party vendor would evaluate current processes and provide recommendations for improvement, and an independent valuation firm had completed a valuation review of the private equity co-investments and had found no significant deviations from the initial reporting.

The committee discussed management’s plan to resolve the issues identified in the report and the differences between the one-time review by the third-party vendor, and the ongoing semi-annual review by the independent valuation firm. The committee heard from Dr. Yetman, who expressed his satisfaction at how staff handled the findings and the process of implementing additional internal controls.

The committee also discussed the additional materials that had been developed to assist employers with reporting and heard from Mr. Zimmer on the training and job aids offered by Employer Services.

IV. 2021 INTERNAL AUDIT PLAN MID-YEAR PROGRESS REPORT (Item 4)

The committee received the 2021 Internal Audit Plan Progress report from Mr. Jensen and Ms. Oyoung. Mr. Jensen presented on the ongoing progress of employer audits conducted by CalSTRS, including the status of findings and the most common audit findings. Ms. Oyoung presented on the progress of internal audits, including external audit firms contracted to perform specialized audits of CalSTRS Investments and Information Technology Services.

Mr. Jensen presented Audit Services’ recommended adjustments to the 2021 Audit Plan, including a consulting engagement of Unresolved Payments, in place of the Recruitment audit and deferring the Disaster Recovery audit to next year after the completion of the data center migration project. The committee discussed the recommended adjustments, the consulting engagement of Unresolved Payments and how the Pension Solution project would affect Benefit Direct. The committee also discussed the timeframe for completing the audits in progress and the separation of work and resources between the Audit Services staff conducting employer audits and staff conducting internal audits.

The committee heard from Mr. Bartow regarding the need to prioritize audits of internal procurement processes at the branch level, the potential risks posed by delaying these audits and the need for increased communication between the General Counsel’s Office and Audit Services. The committee heard from Mr. Jensen about Audit Services’ plans to prioritize these audits and his desire to discuss the issue further with Mr. Bartow. The committee discussed the ability of the Department of General Services to delegate its authority regarding procurement processes, CalSTRS’ delegated authority and the ability of DGS to conduct audits.

MOTION duly made by Ms. Higa, seconded by Ms. Yamamoto, and carried to approve the recommended modifications to the 2021 Calendar Year Audit Plan on page 4 of Item 4 of the committee materials.

Members Voting	Aye	Nay	Abstain
Ms. Higa	X		
Ms. Yamamoto	X		
Ms. Whitaker, for the Director of Finance	X		

Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

V. 2021 ENTERPRISE COMPLIANCE SERVICES PLAN MID-YEAR PROGRESS REPORT (Item 5)

The committee received a report from Ms. Dietz on the 2021 Enterprise Compliance Services Plan regarding compliance initiatives, including development of the External Compliance Reporting Matrix, updates and refinements to CalSTRS compliance risk assessments, training and communication efforts, continued education on the Compliance and Ethics Hotline and development of a case management and response system with the Office of the Ombuds. The committee heard from Mr. Jensen on collaborations between Audit Services and Enterprise Compliance Services and from Dr. Yetman regarding his satisfaction with the growth in CalSTRS’ compliance functions.

VI. 2021 EXTERNAL QUALITY ASSESSMENT REVIEW (Item 6)

The committee received a report from Mr. Jensen regarding the external quality assessment review performed by the Institute of Internal Auditors Quality Services to determine Audit Services’ conformance with the *IIA International Standards for the Professional Practice of Internal Auditing*. The committee heard that Audit Services generally conforms with the Standards and the IIA Code of Ethics and that this is the highest rating for compliance. Mr. Jensen informed the committee that the Audit Services staff would be receiving training on IT and technology-based audit techniques as a result of the review, and that Audit Services would begin including a conformance statement in employer audits based on updated guidance from IIA. The committee heard from Dr. Yetman about his satisfaction with the results of the review and the constant improvement shown over the last two reviews.

VII. REVIEW INFORMATION REQUESTS

There were no requests for information.

VIII. DRAFT AGENDA FOR NEXT COMMITTEE MEETING (Item 7)

There were no changes to the draft agenda.

IX. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC

The committee heard from Randy Harris, representing the Laborer’s International Union of North America Midwest Region, commenting on unpaid wage investigations and labor lawsuits regarding BluSky Restoration.

X. ADJOURNMENT

There being no further business to conduct, Controller Yee adjourned the Audits and Risk Management Committee meeting at 10:19 a.m.

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

Betty Yee, State Controller, Chairperson

Prepared by: Trevor Young, Counsel