



Audits & Risk Management Committee

Item Number 3 – Open Session

Subject: 2022 Management Letter Progress Report

Presenter(s): Cheryl Cervantes Dietz, Julie Underwood

Item Type: Information

Date & Time: March 1, 2023 – 10 minutes

Attachment(s): 2022 Management Letter Progress Report

PowerPoint(s): None

Item 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 6, 2022.

Executive Summary

As part of the audit of CalSTRS' basic financial statements for the fiscal year ended June 30, 2022, Crowe LLP prepared a [Management Letter](#) that cited one deficiency of internal control. The recommendation was to improve internal controls over financial reporting related to the completeness and accuracy of member data received from contributing entities. Management presented the Management Letter to the ARM Committee at the November 2022 meeting. 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 2023 meeting to monitor the status of the findings before the next financial statement audit. Annually, Crowe reviews management's corrective actions and determines whether the deficiency in internal controls still exists.

Background

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.

Strategic Plan Linkage: [Strategic Plan - CalSTRS Goal 1: Trusted stewards-ensure a well-governed, financially sound trust fund.](#)

Board Policy Linkage: ARM Committee Charter:

<https://www.calstrs.com/files/f3854845f/BoardGovernanceManual-August2022.pdf>
