

2021 Management Letter Progress Report as of May 2022

DESCRIPTION OF DEFICIENCY:

Member data is fundamental to financial reporting of contributions, benefit payments, and the Total and Net Pension Liability of the STRP. Internal controls are critical to ensure the completeness and accuracy of financial reporting as CalSTRS is dependent upon information from the contributing entities.

We commend management for the significant steps taken over the past several years related to the controls over member data, however, we continue to identify errors in the reported data that were not identified by CalSTRS' internal control structure. Common findings include:

- Continued misapplication of Limited Term Enhancements-
- Prior year earnings reported in the current year unrelated to retro pay
- Unreported extra duty
- Extra duty reported incorrectly, e.g. as salary or special compensation
- Incorrect pay rate impacting the calculation of earnable compensation
- Incorrect pay code, e.g. 10 pay reported as 11 pay

RECOMMENDATION:

Due to the reliance on the contributing entities for the completeness and accuracy of active member data, it is probable that there will continue to be errors in reported data.

Crowe recommends that management continue to enhance its internal controls through development and/or improvement of data analytics to identify data anomalies and potential systemic errors based on historical experience, modify employer training strategies to improve effectiveness of training resulting in fewer reporting errors and continue to focus on employer readiness for the implementation of Benefit Connect, which includes functionality and file format regulations intended to reduce errors in reporting and provide immediate feedback to employers regarding potential errors upon submitting their contribution data. Management's evaluation of potential improvements should always consider the cost/benefit of any new enhancements related to the risk of incorrect member data.

ORIGINAL MANAGEMENT RESPONSE TO RECOMMENDATION:

Management continues to improve in the areas mentioned in the recommendation. Specifically, CalSTRS continues to expand its employer training audience and channels for training, adding self-serve computer-based training modules on a learning management system. For fiscal year 20/21, CalSTRS provided 45 virtual training sessions that served 2,134 employer staff across 1,091 districts on the most critical employer reporting topics. The expanded training channels include seven new computer-based training modules for core Teachers' Retirement Law topics. 158 employer partner staff representing 108 different employer reporting entities took these modules with an average knowledge assessment score of 96%. CalSTRS also evolved the

training material concepts by developing nine new job aids for the most important reporting laws, providing the employers with additional self-serve education opportunities.

CalSTRS continues to respond to ad-hoc inquiries from employers and will pilot a formal quality management program for those inquiries in fiscal year 21/22. Additionally, CalSTRS has instituted a regular outreach practice to our largest reporting sources, conducting 64 conference calls/virtual meetings with our employer partners to build our relationships with them to learn their needs, answer requests and identify potential training opportunities.

To prepare employer partners for the new Secure Employer Website/BenefitConnect, CalSTRS completed all 92 Pension Solution Readiness Visits in fiscal year 20/21, introducing our report sources (county offices of education, direct reports and their payroll system vendors) to the Employer Readiness Environment that they will use to submit test contribution data into a test environment to prepare them for reporting in the new Secure Employer Website. CalSTRS plans to engage employers with webinars and additional information sessions during the project delay, ramping up again for full, formal training and readiness six to eight months before go-live.

As part of the Employer Reporting to Final Benefit project, a cross-functional team across seven business areas is investigating improved employer information, piloting programs to analyze member data prior to retirement, evaluating current laws and regulations related to common audit findings, and six-month follow-up after audits among other improvements and efforts directly related to accurate employer reporting. CalSTRS has started monthly meetings with business officials and superintendents to discuss these improvements and collaborate with that audience to find ways to get better training penetration to districts and charters in their counties.

MAY 2022 STATUS OF IMPLEMENTATION:

In February 2022, Employer Help rebalanced employer assignments to better serve our employer community. The data behind the change included the complexity of reporting, the number of lines reported, the number of edits on the monthly file and the number of inquiries received. The Cash Balance employers were divided amongst all four teams. Assigning multiple staff to each complex employer assures the workloads received from them are well distributed, allowing teams to answer questions more efficiently about timely and accurate contribution file reporting.

Employer Help continues to pilot a six-month lookback for the Audit Resolution Team, following up on reporting six months after an audit closes to validate the employer continues to report accurately based on the audit findings. This mitigates the risk of employers continuing reporting behavior after being audited. If staff discovers any errors, they notify the employer requesting changes to comply with the previously completed audit. Since the process began in September 2021, staff completed 70 audit reviews with nine follow-up findings through May 2022.

In March 2022, management moved the most complex reporting inquiries to the Training and Development (TaD) team. Shifting this work from Employer Help to TaD has improved response time and consistency of the responses. As they work these complex inquiries, they are

positioned to leverage this experience to address employer training needs and identify trends. TaD received 397 inquiries from February through April 2022 and completed 395.

In addition to this workload shift for complex inquiries, management started a pilot of a quality management program to, initially, review 10% of the complex inquiry responses for accuracy and then expand the program's methodology to sample more types and larger volumes of employer inquiries and interactions. There are two staff participating in the reviews for the pilot. The program standardized email template for employer communication. The approach is to extend the process to other parts of our reporting including Employer Approved Edits, standardizing employer communication, the workorder process and many of our workloads that impact employer reporting in Employer Help and the division. Staff working in the quality management pilot completed 27 inquiries and 100% of them met the standards set in the pilot plan. The pilot has been successful and will provide additional benefits to our employers if we expand the pilot into a permanent team and program. Therefore, a request for additional staff to expand this pilot will be included in the fiscal year 2023-24 budget request.

In addition, to support the efforts of the Employer Reporting to Final Benefit project, a proof-of-concept approach is envisioned to review members' accounts for accuracy prior to receiving a benefit. Each year, staff would sample a significant percentage of accounts for members who have submitted retirement applications. This way, any potential errors or inaccuracies could be resolved with the employer prior to the benefit starting and reducing the risk of a change after retirement. Comments from the employer community and the Teachers' Retirement Board support this concept. Therefore, a request for additional staff to create a pre-benefit account review team will be included in the fiscal year 2023-24 budget request.

Employer training staff in Employer Services delivered 29 trainings from December 2021 to April 2022, serving more than 364 employer partners and 646 employer attendees. Staff have added new computer-based training modules to the learning management system and saw users and represented employers increase by 108 and 39, respectively.

Leadership engaged with our Continuous Improvement Team in September of 2021 to review the Employer Approved Edit process with a goal of innovating, finding efficiencies, and creating new tools to increase the reporting accuracy. When the analysis is complete, management will seek to implement those recommendations that increase the frequency and quality of our Employer Approved Edit review process.