

2022 Internal Audit Plan – Mid-Year Progress Report

AUDIT OF DEATH & SURVIVOR BENEFITS

OBJECTIVE: To evaluate the adequacy and effectiveness of the death and survivor benefit processes.

SCOPE: Our audit scope consisted of an evaluation of the adequacy of controls over death and survivor benefits' payment process. To achieve our objective, we performed walkthroughs with Disability and Survivor Benefits' (DaSB) staff and reviewed policies and procedures and the Teacher's Retirement Law for eight processes: case setup, initial case review, payment authorization, suspended accounts monitoring, payment release, non-periodic payment management review, timeliness of payments, and Board reporting. To evaluate controls, we reviewed a sample of death and survivor benefit cases to:

- Determine if policies and procedures were followed;
- Verify proper and complete documentation was in place to process benefit payments;
- Ascertain if unauthorized changes occurred;
- Confirm if management monitoring occurred; and
- Validate if reports used for monitoring death benefit cases were appropriate.

The audit period was January 1, 2021, through December 31, 2021.

EFFECTIVE

PRACTICES: Disability and Survivor Benefits:

- Has segregation of duties between staff who process the benefit payments and staff who review and release the benefit payments.
- Performs monthly monitoring over address changes and overrides to identify any unauthorized changes.
- Has automated the process to produce outstanding death and survivor benefits and late payment interest penalty monthly data reports that support Board reporting.
- Has procedures with clear instructions, including a tools and forms list essential to complete each procedure with the risk of not correctly following the procedures.
- Appropriately paid all sampled cases and ensured necessary supporting documentation was complete.

STRATEGIC

PLAN:

Goal 2: Leading innovation and managing change Innovate to grow resiliency and efficiency in service of our members.

Objective C: Enhance the customer experience to improve engagement and reduce effort.

AUDIT OF DEATH & SURVIVOR BENEFITS (cont'd)

RISK: Suspended accounts may not be adequately managed and monitored.

1. Rating/Results: ▲

After DaSB has conducted its due diligence in attempting to locate the beneficiary and has not received a response or pertinent documents, the case undergoes review and the account is placed in a suspend status. In a special project, DaSB reviewed cases suspended prior to 2014, resulting in suspended cases being resolved and benefits paid. When additional information is received, the processing of suspended cases resumes. However, a process does not exist to actively manage and monitor suspended accounts. One-third of the cases sampled had errors, such as an incorrect status, or were not properly documented in event tracking, where all account activity should be documented.

Management Action: DaSB will explore methods to actively monitor and manage suspended accounts and will determine the level of resourcing required to mitigate this risk.

Target Completion Date: May 2023

RISK: Outstanding death benefits and late payment penalties may be incorrectly reported to the Board.

2. Rating/Results: ▲

Two different sources were compared to reconcile the number of unpaid death and survivor benefits which were reported to the Board; a discrepancy was noted. DaSB identified an error with the data extraction tool used for compiling the data, which DaSB has reported as subsequently corrected. A secondary review may assist in identifying inaccurate data.

Management Action: DaSB will implement a quality review of the Outstanding Death and Survivor Benefits and Late Interest Payments reports, prior to reporting to the Board.

Target Completion Date: August 2022

RISK: Manually updating survivor benefit tracking may not be completed accurately.

3. Rating/Results: ■

DaSB has a manual process to set up and assign death and survivor benefit cases, followed by a quality control review, comparing multiple spreadsheets. A discrepancy was noted in the number of deaths reported and the number of cases assigned. Although all cases were set up as needed, documentation of discrepancies was not consistently performed.

Management Action: 1) DaSB will update the procedures to include the following: (a) steps to reconcile the number of cases set up and assigned against the various spreadsheets used for this activity; and (b) staff documentation of any discrepancies.

AUDIT OF DEATH & SURVIVOR BENEFITS (cont'd)

Target Completion Date: November 2022

2) DaSB will work with Pension Solution to automate the case set up and distribution process.

Target Completion Date: August 2022

RISK: Caseworkers may not adequately process payments prior to Payment Release Unit (PRU) review.

4. *Rating/Results:* 

For the processing of active member death & survivor benefit (Active Died) cases, procedures require the caseworkers to prepare the case summary to ensure all required steps are performed. Of the cases sampled, the case summary was not always entirely completed.

Management Action: DaSB agrees that during the scope of this audit, the case summary was required, subsequently a decision to improve process efficiency was made resulting in this tool no longer being required. Procedures will be updated to align with this decision.

Target Completion Date: November 2022

RISK: Processing of death and survivor benefits may be inconsistently performed.

5. *Rating/Results:* 

DaSB has detailed procedures to process death and survivor benefits. To improve the processing efficiency, DaSB management does not require certain forms or steps mentioned in the procedures to be completed. As a result, inconsistencies exist between actual practices and documented procedures in the following areas:

- PRU Suspend – Audit sheets
- Initial Review – Case Summaries
- Payment Authorization – Case Summaries
- PRU Review - Last Necessary Information date
- Non-Periodic Payments – Event Tracking additional details

None of the inconsistencies had an impact on the timeliness or accuracy of the benefits paid as all benefits must pass PRU review before payment.

Management Action: DaSB will revise the death and survivor benefits procedures to align with actual practices.

Target Completion Date: November 2022

Audit of Mail & Receiving

OBJECTIVE: To assess the adequacy and effectiveness of the mail and receiving processes.

SCOPE: Our audit scope consisted of an evaluation of the adequacy of controls over the mail and receiving processes. To achieve our objective, we conducted interviews, performed walk throughs, reviewed policy and procedures, and observed key processes, including x-raying of mail, record keeping of purchase orders, handling of checks, processing invoices, date stamping, and returned mail. In addition, we reviewed access to the mail room and the postage meter machine. The audit period was January 1, 2021 through May 15, 2022.

EFFECTIVE

PRACTICES: Facilities Management has:

- An x-ray machine that is utilized to scan incoming mail and goods received to keep employees safe from suspicious items, such as explosives, guns, and powder substances.
- Procedures with clear instructions for its daily activities, such as identifying goods that require an asset tag and processing returned mail.
- A policy that addresses timeliness of mail delivery.

STRATEGIC

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

RISK: Goods (IT equipment included) may not be tagged and entered into BD resulting in inaccurate inventory.

1. Rating/Results:

Facilities Management has a process and procedure to tag and track the receipt of goods. In the course, of our assessment, Audit Services noted many Information Technology (IT) goods were not asset tagged and entered into BusinessDirect (BD) due to an unexpected large shipment of goods. In addition, the IT goods were located in more than one unsecured location.

Management Action:

Facilities Management will:

- A. Designate a secure location for applicable equipment to be asset tagged and entered into BD.
- B. Consider establishing a policy which requires business areas to inform Facilities Management of large purchase orders to prepare sufficient resources to appropriately process and secure the orders.

Audit of Mail & Receiving (cont'd)

Target Completion Date: June 2023

- C. Re-assess the process to ensure focus on asset tagging of goods and entry into BD in a timely manner.

Target Completion Date: August 2022

2. Rating/Results: ■

An opportunity exists to improve the recordkeeping of Purchase Orders (POs). Audit Services noted the following:

- A. Written initials and receipt date designating receipt of goods were not on the hard copy PO.
- B. Some valuable goods, such as docking stations, are not included in the procedures to be asset tagged.
- C. Completed POs have not been scanned and entered in Corporate Imaging, as required in the procedures.

Management Action:

Facilities Management will perform the following:

- A. Enhance the procedures to include the detail of initialing and dating the POs upon receipt of goods.
- B. Review its current list of goods to be tagged and determine if the list of goods will be expanded.
- C. Will ensure completed POs are imaged on a quarterly basis according to its procedures.

Target Completion Date: November 2022

RISK: Checks may not be processed and secured according to policy and procedures resulting in loss of funds.

3. Rating/Results: ◆

Checks are received as part of incoming mail and should be secured until delivered to Accounting. During our audit, Audit Services noted the following:

- A. Evidence of the transfer of custody of checks was not available.
- B. The combination to the safe utilized by the mail room staff, where checks are stored, does not undergo periodic change.
- C. Copies of checks with protected personally identifiable (PII) information were left out unsecured overnight within the mail room.

Audit of Mail & Receiving (cont'd)

- D. A secondary review by another staff member of the number of checks received by Facilities Management does not occur.

Management Action:

Facilities Management will:

- A. Revise process and procedures to address the need to obtain evidence of the transfer of checks to Accounting.
- B. Periodically change the safe combination and develop procedures to include the frequency, including accounting for staff transfers and departures.
- C. Enhance procedures to ensure the safeguarding of PII and remind staff of the importance to safeguard PII from being exposed.
- D. Implement a second level review by another staff member to verify the number of checks received by Facilities Management.

Target Completion Date: November 2022

RISK: Confidential mail may not be appropriately handled, resulting in confidential information being exposed.

4. *Rating/Results:*

A process does not exist to track confidential mail. In addition, the list of recipients of confidential mail is out of date.

Management Action:

Facilities Management will develop and implement a process to track confidential mail and update procedures, including a periodic outreach to update the confidential mail recipient list.

Target Completion Date: July 2022

RISK: Unauthorized access to the mail room may result in loss of funds and compromise protected personally identifiable information.

5. *Rating/Results:*

Equipment used to generate postage for outgoing mail and packages should be secured for business use only or may result in financial loss for CalSTRS. During our audit, Audit Services noted the following:

- A. Equipment to prepare postage for shipping - postage meter, weight machine, and postage printer, as well as the password to access the postage meter are readily accessible to all staff.

Audit of Mail & Receiving (cont'd)

- B. Access to the mail room, where a postage meter is located, is not limited to staff who require access to perform their job duties and approved contractors.

Management Action:

Facilities Management will perform the following:

- A. Secure all postage producing equipment for shipping to ensure use for CalSTRS business only.
- B. Periodically review badge access to the mail room and develop procedures to account for staff transfers and departures.

Target Completion Date: November 2022

RISK: Mail may not be x-rayed resulting in harm to CalSTRS employees and Board members.

6. *Rating/Results:* ▲

In case of emergency, instructions and phone numbers should be readily visible. Emergency x-ray instructions and emergency phone numbers were not posted in the x-ray room. In addition, x-ray procedures did not include sufficient detail on how to handle goods that are oversized or do not require an x-ray.

Management Action:

Facilities Management will post emergency instructions and emergency phone numbers in the x-ray room. In addition, Facilities Management will enhance current x-ray procedures to include instruction on handling goods that are oversized or do not require an x-ray

Target Completion Date: July 2022

RISK: Mail may not be correctly date stamped, resulting in untimely service to members, employees, and vendors.

7. *Rating/Results:* ■

Certain incoming mail is time sensitive, such as member checks, members benefit documents and invoices. In some instances, the date stamp, for stamping daily mail, were not changed or checked, as required by procedures.

Management Action:

Facilities Management will ensure staff follow established processes to change and check the daily date stamp.

Target Completion Date: Completed but not validated by Audit Services

Audit of Mail & Receiving (cont'd)

RISK: Invoices may not be processed according to policy and procedures resulting in penalties and interest due to missed timelines.

8. *Rating/Results:* ■

Invoice details are manually entered into the imaging system, such as vendor name, invoice date, invoice number, and invoice amount. A quality control review by a different staff member does not exist.

Management Action:

Facilities Management will enhance procedures to require a secondary quality control review by another staff member to verify the accuracy of the data entered into the imaging system.

Target Completion Date: August 2022

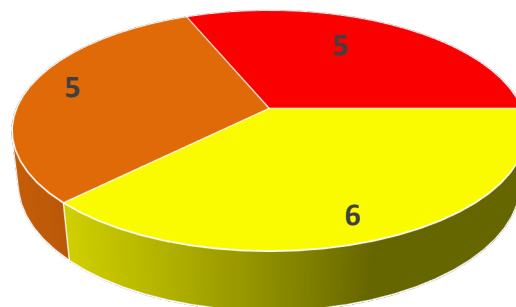
FOLLOW UP ON INTERNAL AUDIT FINDINGS

Following is a corrective actions status summary for internal audit findings as of May 31, 2022. Management actions and the audit findings status 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
Data Governance		In Progress	Finding 2B: Data owner and data steward training and communication to new and existing staff could be formalized.
Pension Benefit Information, LLC (PBI)		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.
		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.

* PBI will coordinate with CalSTRS on the resolution to ensure PBI complies with existing contract requirements or amend the contract accordingly. DaSB and PBI respective legal representatives are working together toward resolution. Target completion date: June 2022.

SUMMARY - Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
BusinessDirect - Application Controls		Resolved	Finding 1: CalSTRS has minimal validation rules set up in the system to prevent incorrect or invalid manual financial postings. However, CalSTRS has other manual controls that currently exist outside of the BD system that mitigate the risks.
		Resolved	Finding 4: Posting to General Ledger (GL) Accounts being used in full accrual and modified accrual methods of accounting should be strictly moderated. An entry could be made in the system that would result in balance sheet reports, for a specific method of accounting, to be incorrect.
		Resolved	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 7: In BD, a user may change the value in the reference field after an invoice document is posted.
Workforce & Succession Planning		Resolved	Finding 1B: Communication of the branch action plan to business leaders was inconsistent.
		In Progress	Finding 1C: The quarterly update, and by whom, of the tracking spreadsheet was not evident.
		In Progress	Finding 2: A documented methodology for assessing the talent pipeline's current competencies and overall readiness was not included within the workforce and succession plan.
Production Data & Application Development Access		In Progress	Finding 1: Two staff and two contractors (Release Managers) have authority to release projects into production, and all four staff have access to develop systems.
		In Progress	Finding 2: The SDLC is silent on testing requirements for Content changes.

SUMMARY - Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
Production Data & Application Development Access (cont'd)		In Progress	Finding 3: Developers have unlimited access to check out codes from the TFS repository to make changes/edits. Code change activities in the repository are not monitored.
Sustainable Investments and Stewardship Strategies		Resolved	Finding 1: Documentation and data requirements among external investment managers is not consistent.
		Resolved	Finding 2: The Limited Partnership agreements for the Activist Fund Managers do not require managers to assess their portfolios against the ESG Risk Categories as required by the Corporate Responsibility Policy.
		In Progress	Finding 3: The annual audit of Viewpoint by SISS, which evaluates whether eligible Portfolio accounts have been added, can be strengthened.
		In Progress	Finding 4: SISS could further strengthen monitoring controls over proxy voting and the Glass Lewis – Viewpoint application used to administer proxy voting in compliance with the Corporate Governance Principles.
Account Management and Performance Reporting		Resolved	Finding 1: A system limitation exists within State Street’s multi-currency horizon system (MCH) that does not allow for seeking approval of service teams upon identifying the possible need to create prior period accounting changes after the period has been marked as closed.
		Resolved	Finding 2: STIF trades on CalSTRS report do not appear on daily State Street report for one of ten sample dates.
		In Progress	Finding 3: Incident memos do not consistently contain relevant information and a centralized process to monitor and report on remediation status after memo released to CalSTRS does not exist.
		Resolved	Finding 4: NAV Validation Status marked "Complete" when not all NAV Validation Alert errors have been cleared in ten of ten sample reports and also evidenced during walkthrough 1/11/22.

SUMMARY - Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
Account Management and Performance Reporting (cont'd)		Resolved	Finding 5: Required client memo and internal sign-off for asset transfers missing for two of four sampled asset transfer transactions.
		Resolved	Finding 6: Final onshore reviewer sign-off missing from daily performance quality control checklist for four of ten sampled checklists.
		Resolved	Finding 7: Offshore and onshore reviewer sign-offs missing for benchmark checks on monthly performance checklist for one of two months sampled.
		In Progress	Finding 8: Out-of-tolerance difference of \$1,063,419 not explained in one of two monthly investment manager reconciliations sampled.
Audit of Third-Party Vendor - Genesys Cloud Services, Inc.		In Progress	Finding 2: Genesys does not support screen capture function and retrieval of screen captures consistently. Additionally, Customer Service has an outstanding issue, created in December 2020, where screen capture does not function on one user's computer.
		In Progress	Finding 4: Genesys provided one Deliverable Acceptance Form; however, it was not signed by all CalSTRS approving officials. Also, Genesys did not provide a Deliverable Acceptance Form with monthly invoices. In addition, Genesys did not provide a Deliverable Expectation Document for each project deliverable.
		In Progress	Finding 5: Genesys did not show full conformance with the Americans with Disabilities Act (ADA)/Web Content Accessibility Guidelines (WCAG) 2.0 AA success criteria.
		In Progress	Finding 6: Genesys does not provide the Service Level Agreement monthly performance report by the 10th calendar day of the following month.
		In Progress	Finding 7: Genesys is required by contract to submit invoices with five required elements. The sampled invoices were missing two required elements (1) the contractor's telephone number and (2) fiscal year in which services were rendered.