



Audits & Risk Management Committee

Item Number 4 – Open Session

Subject: 2021 Internal Audit Plan Mid-Year Progress Report

Presenter(s): Larry Jensen & Roseanne Oyoung

Item Type: Action

Date & Time: July 9, 2021 – 15 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 mid-year results.

Additionally, Audit Services proposes modification of the Calendar Year 2021 Internal Audit Plan.

DISCUSSION/SUMMARY

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.

Consistent with Audit Services' Charter, Audit Services' has the responsibility to update the plan based on risks and control concerns identified by management. Within this agenda item are proposed updates to the 2021 Internal Audit Plan to address areas of higher risk noticed by management. In accordance with the ARM Committee Charter, all major modifications of the audit plan require approval by the ARM Committee.

Employer Audits

Employer Audit Results

An overview of Employer Audit results as of June 10, 2021 is included as Attachment 1. In summary:

- Staff completed 57 of the 106 Employer audits in the plan. This includes 15 full-scope audits and 42 limited-scope audits.
- 103 audits are also in progress, which includes six full-scope and 97 limited-scope audits.

For the 15 full-scope audits, we found a total of 63 findings, which include misreported compensation, post-retirement earnings, and unused sick leave findings.

For the 42 limited-scope audits, we focused specifically on one of the following areas:

- Special compensation,
- unused sick leave,
- or post-retirement earnings.

Data analytics was utilized to select Employers with a greater likelihood of misreporting in these areas. For the 42 limited-scope audits, we found a total of 63 findings, which included special compensation (61 findings), unused sick leave (one finding), and post-retirement earnings (one finding). The vast majority of our limited scope audits focused on special compensation.

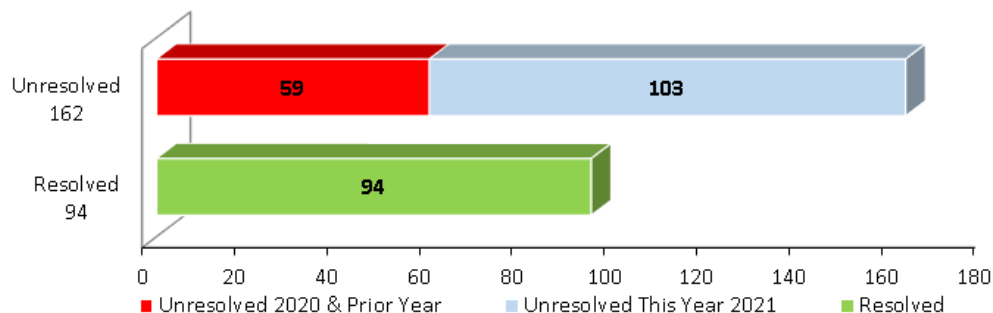
Overall, we found a total of 126 findings and 41 of the 57 Employers audited (72 percent) had at least one systemic finding. Nine Employers had no findings (15.8 percent).

Status of Findings – Employer Audit

During the five-month period from January 1, 2021, through June 10, 2021, the employer audit team reported 126 new findings. During the same period, 94 employer audit findings from both previous and current years were resolved. Overall, 162 findings remain in progress, which consists of the following:

- Fifty-nine audit findings from the prior year
- One hundred and three audit findings from the current year

Illustration 1: Employer Audit Findings



CalSTRS Member Account Services assist the Employers to correctly report the items that were found to be misreported to CalSTRS. Member Account Services continues to work with the Employer to correct the unresolved prior year findings. Audit Services validates that the Employer correctly reported the items that were 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 Data Privacy and Excess Contribution Returns. Summaries of these audit reports are located on pages 1 and 2, respectively, of Attachment 2. Currently, Internal Audits has the following three audits in progress:

- Workforce and Succession Planning
- Technology Procurement Services
- Production Data & Application Deployment Access

Contracted Audit Results

Audit Services contracts with external audit firms to perform specialized audits of CalSTRS Investments and Information Technology Services. For the 2020 Audit Plan, staff facilitated the completion of one investment audit, Global Equity, and one information technology audit, BusinessDirect - Information Technology Application Controls. Summaries of these audit reports are located on pages 3 through 7, respectively, of Attachment 2. The following four contracted audits are in progress:

- Cash Management
- Innovative Strategies
- Sustainable Investment and Stewardship Strategies
- 2021 Annual Financial Statement Audit

2021 Audit Plan Adjustment

Due to the changing risk environment and vacancies, Audit Services proposes modifying the 2021 Audit Plan. The proposal consists of performing a consulting engagement of Unresolved Payments, in place of the Recruitment audit, to align with the changing risk profile and deferring the Disaster Recovery audit to next year after the completion of the data center migration project. In addition, Audit Services will be utilizing hours allocated in the 2021 Audit Plan for advisory services to assist Fiscal Services with validating service retirement payments.

Status of Internal Audit Findings

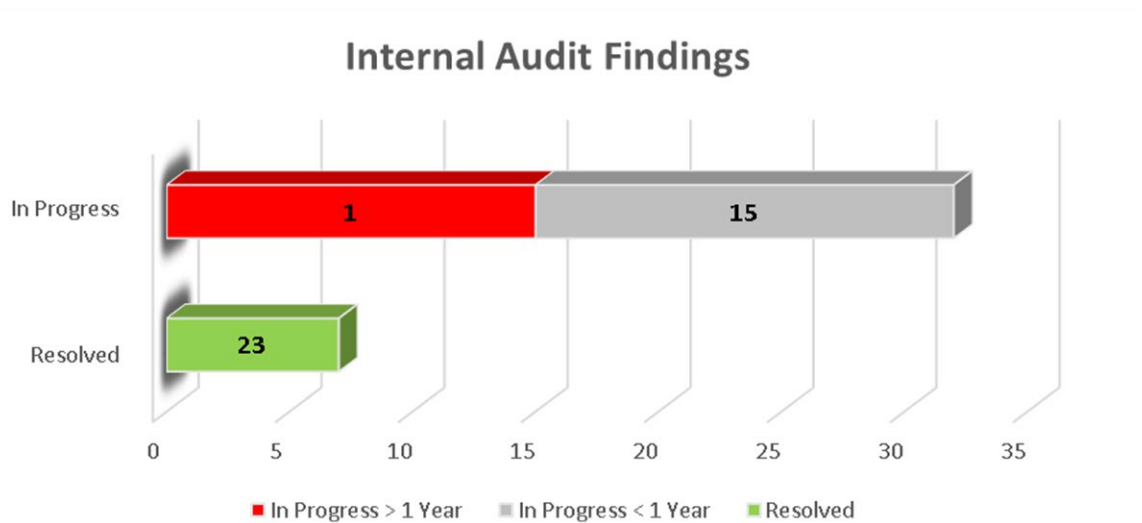
The primary benefits of audits are not realized until effective and timely actions are taken by management to resolve findings by implementing agreed upon recommendations. The findings that are in progress relate to the following topics:

- 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 8 through 17 of Attachment 2.

From February 2021 through May 2021, management resolved 23, or 59 percent, of the 39 outstanding internal audit findings demonstrated in Illustration 2. Of the 39 outstanding findings, two were added from audits recently completed and reported at the March 2021 ARM Committee meeting. Audit Services verified the resolution of a finding when management reports it as resolved. All resolved findings are included in the report period that management fully implemented the corrected actions and Audit Services verified resolution of the finding.

Illustration 2: Internal Audit Findings



RECOMMENDATION

Audit Services recommends approval for modifications to the 2021 Calendar Year Audit Plan for 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.

**2021 Internal Audit Plan – Employer Audit Mid-Year Progress Report
Employer Audit Reports Issued from January 1, 2021, to June 10, 2021**

	Common Finding Type:				Un-Reported Post-Retirement Earnings (1)	Incorrectly Reported Member Earnings as Non-Member Earnings (2)	Incorrectly Reported Earnings to DB Instead of DBS or Error in Pay Rate or Non-Creditable Earnings to DB (3)		Incorrectly Reported Basic Sick / Excess Sick or Base Days (4)
	Employer Type:	Final Report Date	Total Number of Finding(s)	Systemic Reporting Error	Retirees Identified	Active Members Identified	Active Members Identified	Retirees Identified	Retirees Identified
	K12 School District:								
1	Kingsburg Joint Union High SD	1/14/2021	2	Yes			12		
2	San Carlos Elementary SD	1/14/2021	2	Yes			2		
3	Oroville City ESD	1/14/2021	5	Yes	2		4	3	2
4	San Marino USD	1/14/2021	1	Yes			7		
5	Lancaster Elementary	1/21/2021	2	Yes			9		
6	Franklin-McKinley ESD (NF)	1/21/2021	0						
7	Bonsall Unified SD (NF)	1/28/2021	0						
8	Nevada Joint Union High SD	1/28/2021	2	Yes			3		
9	Corcoran Joint USD (NF)	1/28/2021	0						
10	Santa Barbara USD	2/4/2021	2	Yes			9		
11	Compton USD	2/11/2021	2				4		
12	McFarland USD	2/18/2021	2	Yes			4		
13	Yreka Union Elementary SD	2/18/2021	1				1		
14	Bret Harte UHSD	2/18/2021	1		1				
15	Central Elementary SD (NF)	2/18/2021	0						
16	Summerville USD	2/25/2021	3	Yes			9		
17	Vallejo City USD	3/4/2021	2	Yes			3		
18	Las Lomitas ESD (NF)	3/11/2021	0						
19	Brawley Elementary SD	3/11/2021	4	Yes	2		12		
20	Wasco Union Elementary SD (NF)	3/25/2021	0						
21	Los Nietos USD	4/1/2021	2	Yes			2		
22	Calaveras USD	4/1/2021	8	Yes	3		7	2	1

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					Retirees Identified	Active Members Identified	Active Members Identified	Retirees Identified	Retirees Identified
	Employer Type:	Final Report Date	Total Number of Finding(s)	Systemic Reporting Error	Retirees Identified	Active Members Identified	Active Members Identified	Retirees Identified	Retirees Identified
	K12 School District:								
23	Campbell Union High SD	4/8/2021	1	Yes			3		
24	Brisbane Elementary SD	4/8/2021	2	Yes			8		
25	Castro Valley USD	4/15/2021	3	Yes			3	2	2
26	Sonora High SD	4/15/2021	1	Yes			3		
27	Coalinga-Huron Joint USD	4/15/2021	3	Yes			4		
28	PittsburgUSD	4/15/2021	2	Yes			4		
29	Wasco Union High SD	4/15/2021	3				3	1	
30	Selma Unified SD	4/15/2021	1	Yes			3		
31	Brentwood Union Elementary SD	4/29/2021	1	Yes			2		
32	Central USD	5/13/2021	5	Yes	1		5	1	
33	Woodside Elementary SD	5/13/2021	2	Yes			3		
34	Livermore Valley Joint USD	5/20/2021	4	Yes	4		5		
35	Delano Joint Union High (NF)	5/20/2021	0						
36	Sutter Union High	5/20/2021	1	Yes			4		
37	Calexico USD (NF)	5/20/2021	0						
38	North Monterey County USD	4/15/2021	1	Yes			8		
39	Vacaville Unified SD	5/13/2021	1		1				
40	Mendota USD	6/10/2021	2	Yes			3	1	
41	Pollock Pines Elementary	6/10/2021	3	Yes	2		1	1	1
	Sub-Total: (41 K12 Districts)		77	28	16	0	150	11	6

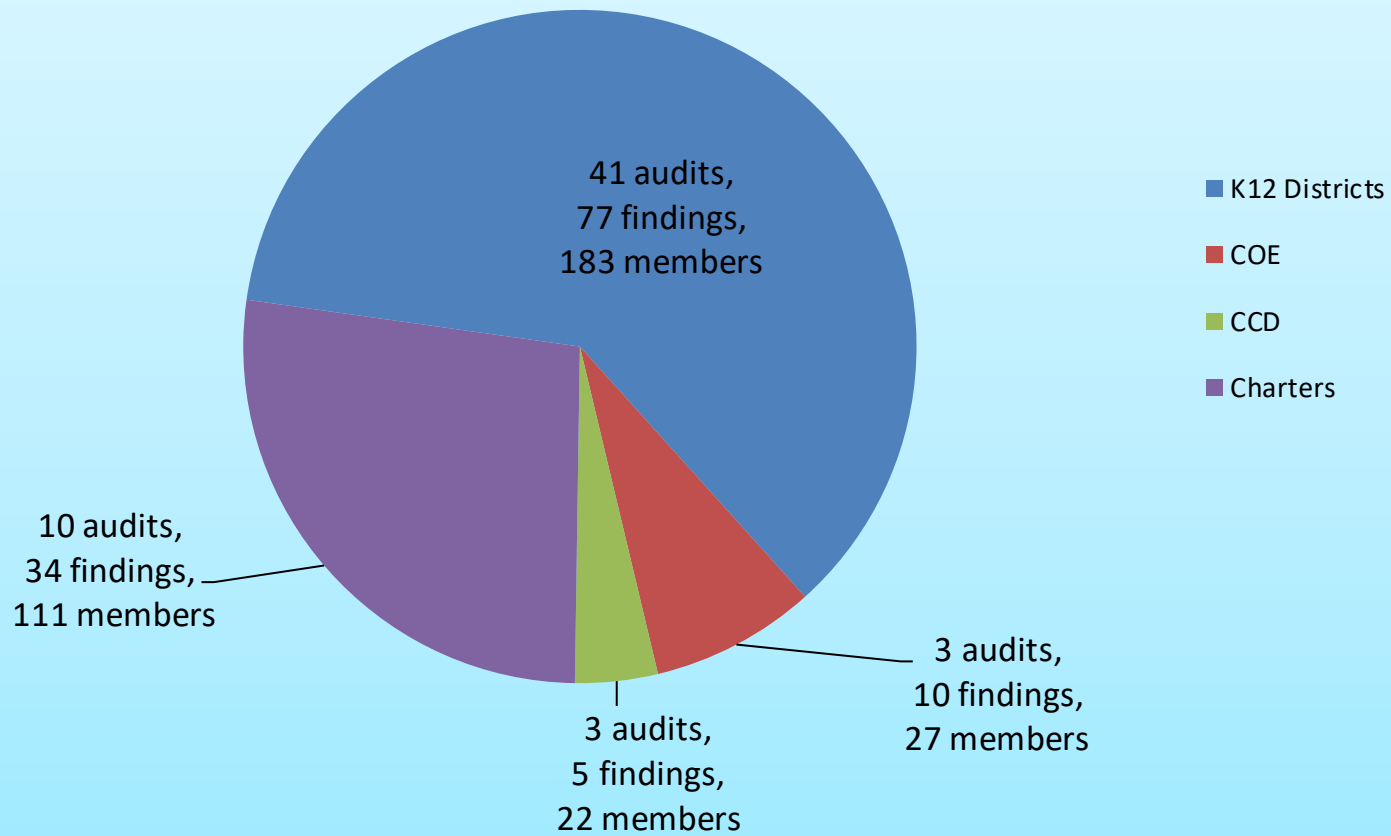
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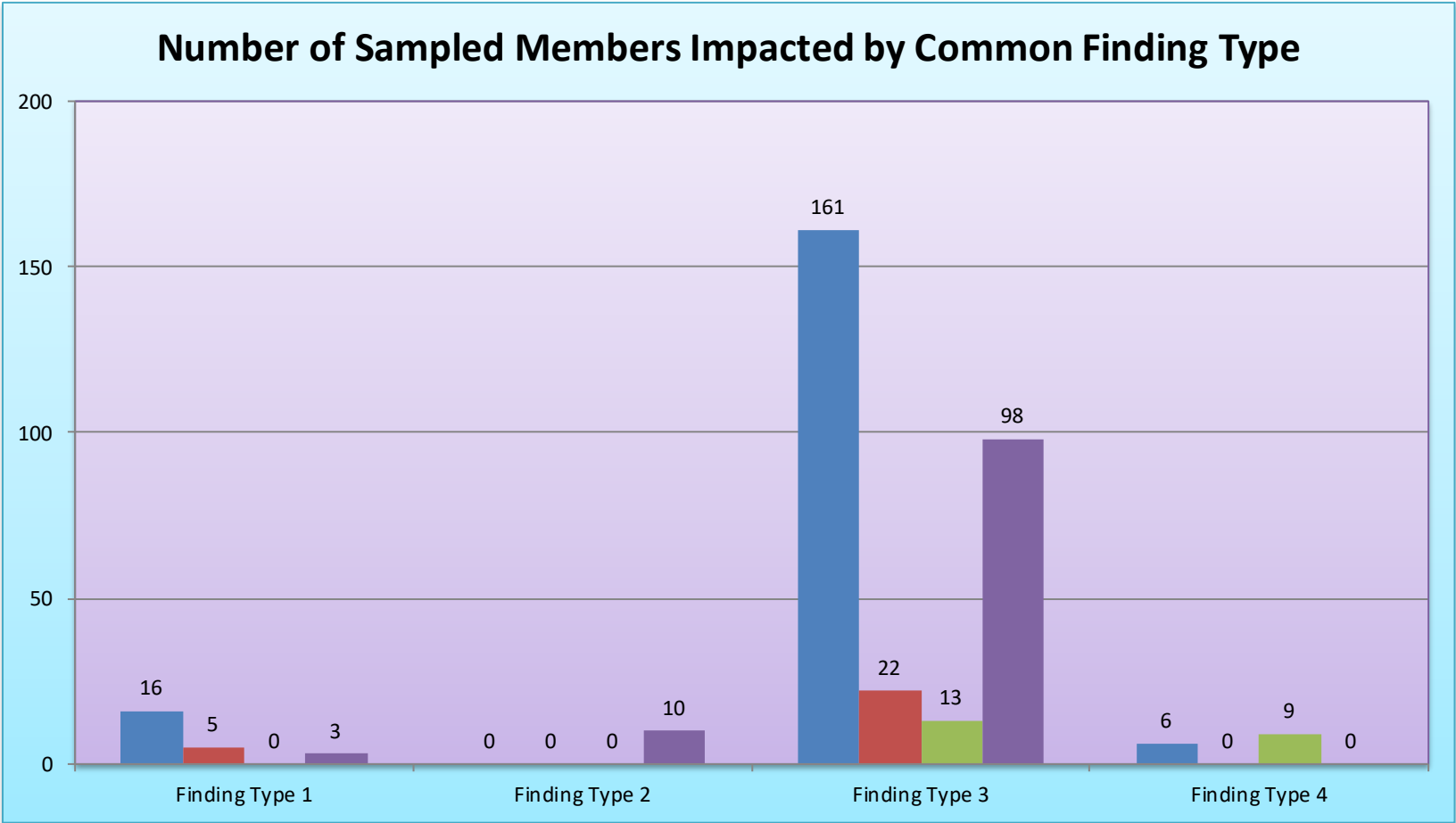
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					Retirees Identified	Active Members Identified	Active Members Identified	Retirees Identified	Retirees Identified
	Employer Type:	Final Report Date	Total Number of Finding(s)	Systemic Reporting Error					
	County Office of Education:								
42	Contra Costa COE	1/14/2021	5		5		6	4	
43	Solano COE	1/14/2021	1	Yes			4		
44	Colusa COE	4/1/2021	4	Yes			8		
	Sub-Total: (3 COE)		10	2	5	0	18	4	0
	Community College District:								
45	Santa Rosa Junior CCD	2/25/2021	1	Yes			2		
46	Allan Hancock Joint CCD	3/18/2021	2	Yes					9
47	Yuba CCD	4/15/2021	2	Yes			11		
	Sub-Total: (3 CCD)		5	3	0	0	13	0	9
	Charter Schools:								
48	Ace Charter	1/14/2021	2				10		
49	College Bridge Academy	1/14/2021	4	Yes	1		14		
50	The Education Corps	1/14/2021	6	Yes	1	2	12		
51	Youthbuild Charter of California	1/21/2021	7	Yes	1	8	21		
52	CCVS-Sage Oak	2/25/2021	2	Yes			8		
53	San Diego Virtual School	3/25/2021	3	Yes			4		
54	Port of Lost Angeles High	4/22/2021	4	Yes			14		
55	Mission Vista Academy (NF)	4/29/2021	0						
56	Excellent Performance Innovate	5/13/2021	2	Yes			3		

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							Active Members Identified	Retirees Identified	
	Employer Type:	Final Report Date	Total Number of Finding(s)	Systemic Reporting Error	Retirees Identified	Active Members Identified	Active Members Identified	Retirees Identified	Retirees Identified
	Charter Schools (continued):								
57	Sunrise Middle School	6/3/2021	4	Yes			12		
	Sub-Total: (10 Charters)		34	8	3	10	98	0	0
	GRAND TOTAL (57)		126	41	24	10	279	15	15
<p>Notes: Yes - 41 audits disclosed a high risk of systemic reporting errors which could potentially have a material impact to the District and member accounts.</p> <p>NF – 9 No Finding Audits</p>									

Employer Type and Common Finding Results



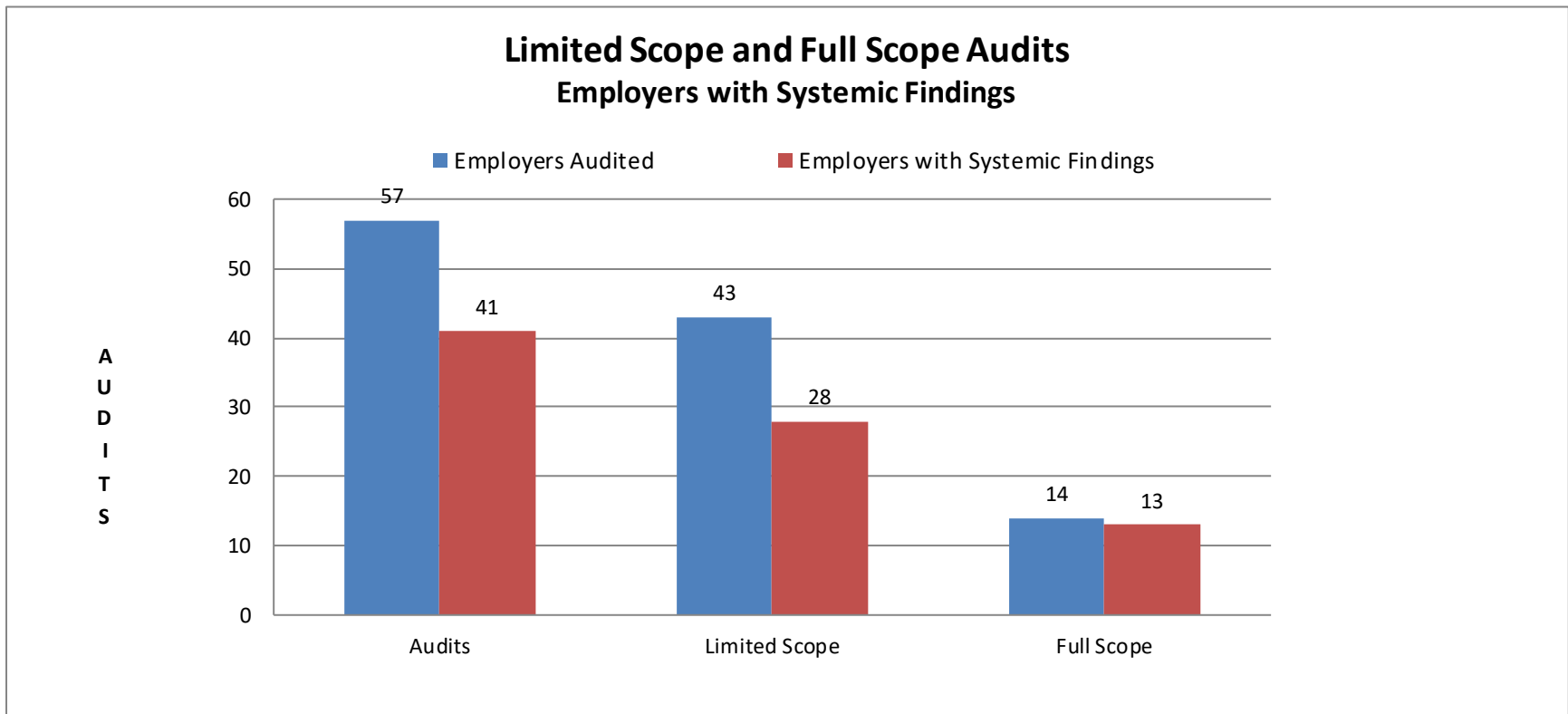


- K12 Districts
- County Office of Education
- Community College Districts
- Charter Schools

Common Finding Type:

- 1 – Incorrectly reported post-retirement earnings
- 2 – Incorrectly reported member as non-member
- 3 – Incorrectly reported compensation
- 4 – Incorrectly reported basic sick leave / excess sick leave or base days

Limited Scope & Full Scope Audits – Employers with Systemic Findings			
	Audits	Employers with Systemic Findings	Percentage of Employers with Systemic Findings
Limited Scope Audits	43	28	65%
Full Scope Audits	14	13	93%
Totals	57	41	72%



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

DATA PRIVACY

Objective: To evaluate the adequacy and effectiveness of data privacy governance and practices to protect personal information from unauthorized disclosures and applicable California’s Data Privacy Rules.

Scope: The audit scope consisted of a review of CalSTRS’ data privacy (DP) governance and policies. Internal Audits evaluated if the DP governance structure and policies were adequately designed to address scenarios relevant to CalSTRS and compared against best practices. To achieve the audit’s objective, Internal Audits reviewed DP’s governance structure and policies, identified best practices, and interviewed staff to obtain an understanding of the DP processes.

The audit period was January 1, 2020 through December 31, 2020. No audit findings were noted during the course of this audit.

Effective Practices: EIM performed the following:

- Structured DP governance to include other governance entities, both inside and outside of CalSTRS, consistent with best practices.
- Incorporated best practices into jointly developed policies with the Information Security Office as well as with business areas who are part of the EIM Governance Council.
- Prepared a timeline for implementing an EIM tool to provide ongoing support for specific DP monitoring and inquiries.

Strategic Plan: Digital Transformation: Leverage technology to securely transform business and service delivery models to maximize operational efficiency.
Objective B: Secure the confidentiality and integrity of data and member information.

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

EXCESS CONTRIBUTION RETURNS

Objective: To evaluate the adequacy and effectiveness of excess contribution returns.

Scope: Our audit scope consisted of an evaluation of the adequacy of controls over excess contribution returns. To achieve our objective, we reviewed job aids and interviewed staff to obtain an understanding of the excess contribution returns process. We also selected a sample of annual excess contribution returns and compared information in BusinessDirect to claim schedules to determine accuracy. In addition, we reviewed the excess contribution returns approval process.

The audit period was January 1, 2020 through December 31, 2020. No findings were noted during the course of this audit.

Effective Accounting:

- Practices:**
- has reports that are generated from BusinessDirect that are reviewed to ensure the amount of excess contribution returns are reasonable.
 - has job aids for processing excess contribution returns.
 - has a review and approval process to verify excess contribution returns agree with claim schedules.

Strategic Plan: Member/Employer: Strengthen partnerships and services to members, employers and stakeholders.
Objective C: Increase the accuracy, completeness, and timeliness of employer reporting.

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

GLOBAL EQUITY

Objective: Evaluate whether adequate controls are in place over the global equity portfolio

Scope: The scope of the internal audit of the Global Equity Investment Portfolio included investment activity during the period of July 1, 2019 through June 30, 2020. The objectives included identifying the risks and related mitigating controls inherent to CalSTRS’ Global Equity management processes list, including: governance, broker-dealer selection and monitoring, trade execution, external manager due diligence and oversight, and reporting.

Results: Based on our procedures performed, the operational, compliance, accounting, and reporting functions related to CalSTRS’ Global Equity Investment Portfolio were managed in accordance with established policies, guidelines, and procedures for the period July 1, 2019, through June 30, 2020. Additionally, we evaluated the risks and mitigating controls associated with CalSTRS’ Global Equity Investment Portfolio and did not identify any instances that would rise to the level of written observations.

Strategic Ensure a financially sound retirement system.

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


BUSINESSDIRECT – IT APPLICATION CONTROLS

Objective: The objectives included evaluating the adequacy and effectiveness of IT application controls within the BusinessDirect (BD) system environment.

Scope: The scope of the audit was to identify and evaluate IT application controls in place and determine whether the controls are adequately designed and operating effectively. The assessment identified potential gaps where automated controls, if implemented, could possibly create efficiencies, rather than current mitigating manual controls. Mitigating controls, as reported by management, address the overall risk and considered in the risk rating, however, these controls were not validated as part of this assessment.

Strategic Plan: Leverage technology to securely transform business and service delivery models to maximize operational efficiency.
Objective D: # of new digital services and/or enhancements initiated annually.

RISK: Incorrect entries may be posted in the system.

<i>Results</i>	<i>Management Action</i>
<p> 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.</p>	<p>Financial Planning, Accounting, and Reporting (FPAR) has numerous preventative and detective controls to mitigate the risk of an incorrect posting. However, FPAR acknowledges there may be an opportunity for improvement. Therefore, FPAR will work with BusinessDirect System Support (BDSS) to review the existing posting validation controls and enhance the controls if and where deemed beneficial or necessary.</p> <p>Target completion date: March 2022</p>

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

RISK: Transactions such as depreciation and asset retirements may be posted to the incorrect fund and not matched with the original fixed asset's fund.	
<i>Results</i>	<i>Management Action</i>
<p>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 application control to prevent asset shells being changed after postings have been recorded.</p>	<p>FPAR has numerous controls in place, including workflow review, reconciliations, and analytical review of account balances, to mitigate the risk of asset shells from being changed after postings have been recorded. However, we acknowledge there is an opportunity for improvement. Therefore, FPAR will work with BDSS to implement the recommended BD application control to prevent asset shells being changed after postings have been recorded.</p> <p>Target completion date: September 2021</p>
RISK: Delivery addresses may be manually entered/modified in shopping carts versus pulled from an approved, set listing of addresses authorized to receive merchandise.	
<i>Results</i>	<i>Management Action</i>
<p>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.</p>	<p>Procurement and BDSS has implemented the application control to prevent unauthorized changes to delivery addresses on shopping carts.</p> <p>Target completion date: Completed but not yet validated by Audit Services.</p>
RISK: For a specific method of accounting, an incorrect general ledger entry that is not identified during manager review may not be discovered until either the quarter or year-end financial statement review cycle and may result in incorrect balance sheet reporting.	
<i>Results</i>	<i>Management Action</i>
<p>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.</p>	<p>FPAR has numerous controls in place, including workflow review, reconciliations, and analytical review of account balances, to mitigate the risk of an incorrect posting. However, we acknowledge there is an opportunity for improvement. Therefore, FPAR and BDSS will coordinate the effort to identify and establish the application control to prevent BD entries that would result in</p>

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

RISK: For a specific method of accounting, an incorrect general ledger entry that is not identified during manager review may not be discovered until either the quarter or year-end financial statement review cycle and may result in incorrect balance sheet reporting.

<i>Results</i>	<i>Management Action</i>
<p>■ 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.</p>	<p>balance sheet reports, related to a specific method of accounting, to be incorrect or develop a report to assist in identifying incorrect transactions.</p> <p>Target completion date: March 2022</p>

RISK: Incorrect entries may be posted in the system. Non-PO invoices could be created without a valid appropriation which would allow cash to be expended without a corresponding budget to support the expenditure.

<i>Results</i>	<i>Management Action</i>
<p>■ 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.</p>	<p>Financial Services Branch (FSB) acknowledges the ability to post to an account that may not appear logical, since accounts receivable (A/R) transactions are posted using the A/P module. A/R transactions often need to be applied to expense payroll accounts.</p> <p>There are a handful of statistical accounts that this item may be applied to. FSB will review the impact of restricting those accounts.</p> <p>Target completion date: March 2022</p>

Risk: Incorrect entries may be posted in the system. Vendor invoices may be paid without a valid appropriation which will allow for cash to be expended without a corresponding budget to support the expenditure.





<i>Results</i>	<i>Management Action</i>
<p>■ 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. CalSTRS uses electronic workflow and reviews to catch these issues.</p>	<p>During the audit, Accounting and BDSS implemented the application control to prevent invalid postings on MM (MIRO) invoices which was subsequently validated by Audit Services.</p>

Risk: Duplicate invoices may accidentally be paid.	
<i>Results</i>	<i>Management Action</i>
<p>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.</p>	<p>CalSTRS has several mitigating controls in place and the current process requires occasional modification to the reference field. However, once CalSTRS goes live with Benefit Connect, that process will change, and FSB will reassess the restriction of the field at that time.</p> <p>Target completion date: After Benefit Connect go live date</p>
RISK: Master data will be maintained that has no relevance to the asset subledger which can result in inaccurate data being stored in the system.	
<i>Results</i>	<i>Management Action</i>
<p>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.</p>	<p>FPAR and BDSS will coordinate the effort to deactivate certain fields in the Asset Master Data to prevent incorrect postings.</p> <p>Target completion date: September 2021</p>
Risk: Incorrect entries may be posted in the system, but only for fields CalSTRS doesn't use for its balance sheet.	
<i>Results</i>	<i>Management Action</i>
<p>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.</p>	<p>FPAR and BDSS will coordinate the effort to deactivate certain fields to prevent incorrect postings.</p> <p>Target completion date: December 2021</p>

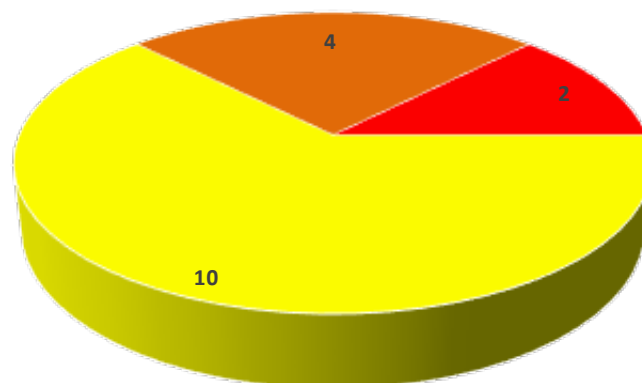
FOLLOW UP ON INTERNAL AUDIT FINDINGS

Following is a summary of the status of corrective actions for internal audit findings as of May 31, 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 implementation of the corrective actions 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












*There were no findings in progress with a green rating during this reporting period.







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		In Progress	Finding 2B: Servers supporting a Tier 2 application were not backed up regularly.
Enterprise Risk Management		Resolved	Finding 4A: Existing key risk indicators do not provide an early warning of increasing risk exposures in various areas of the organization. CalSTRS ERM does not verify key risk indicator risk responses.
		Resolved	Finding 4B: CalSTRS ERM does not verify branch risk mitigations for key risks as reported in the Enterprise Risk Management Matrix.
Voya		Resolved	Finding 2B: Voya did not provide their disaster recovery plan to CalSTRS as required by the contract.
		Resolved	Finding 4D: Voya maintains records of its performance standard results but does not provide a required summary to CalSTRS or web documents for communication to program participants.
Third Party Administrator for 403bComply - TCG Administrators		Resolved	Finding 1: TCG did not disclose to CalSTRS the Field Customer Service Representative (FCSR) expenses for 2018. Additionally, the contract does not address gifts disclosures to School Districts and/or School Employers.
		Resolved	Finding 2: TCG does not meet the Disabled Veteran Business Enterprise (DVBE) participation goal as required by the contract.
		Resolved	Finding 3: As required, TCG responded to participant calls and voice messages within three days. However, we identified one instance in which a distribution response took five days.
		Resolved	Finding 4: TCG does not provide CalSTRS with direct access to web reports and participant accounts as required by contract.






SUMMARY - Findings Over One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
Third Party Administrator for 403bComply - TCG Administrators (cont.)	◆	Resolved	Finding 5: TCG does not maintain all required data elements on participants as required by contract. Two of those elements are not available to TCG.
	◆	Resolved	Finding 6: TCG does not provide the employer contact name and telephone number when submitting contributions to vendors as required by the contract.
	◆	Resolved	Finding 7: TCG does not provide a user-friendly method of performing a search of transaction and participant data field(s) and the ability to view regular and ad hoc reports on demand as required by contract. Instead, TCG provides CalSTRS with information upon request.
	◆	Resolved	Finding 8: TCG has not provided CalSTRS with online access as required. Instead, TCG provides CalSTRS with information upon request.
	◆	Resolved	Finding 9: TCG does not survey participants after calls as required by the contract. As a result, survey results are not provided to CalSTRS.
	◆	Resolved	Finding 10: TCG is required by the contract to provide a full-time FCSR in California. However, in August of 2019, the FCSR resigned.
	◆	Resolved	Finding 11: TCG does not provide CalSTRS with monthly reports or system access on various types of participant, vendor, and eligibility data as required by contract. Instead, TCG provides CalSTRS with this data upon request.
	◆	Resolved	Finding 12: TCG has not provided CalSTRS access to digital analytics of its website. Instead, TCG analyzes participant use of its website and makes changes as necessary.
	◆	Resolved	Finding 13: The monthly fees per participant were calculated properly, however, payments are not sent to CalSTRS by the time prescribed. TCG is unable to meet this deadline because of different employer payroll reporting systems.
	◆	Resolved	Finding 14: TCG fee collection for monthly representative service support differs from the amount required by contract. Additionally, TCG does not consistently provide CalSTRS a listing of participants to support each payment.

SUMMARY - Findings Over One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
BusinessDirect		Resolved	Finding 2A: Policies (Information Security, Password Security, & BD Access) relevant to security administration are not reviewed, updated, and approved to reflect the current related processes and procedures. Additionally, policies did not contain the key aspects of security administration.
		Resolved	Finding 2B: Change Management Policy is not reviewed, updated and approved on a periodic basis.
		Resolved	Finding 2C: Batch process procedures have not been reviewed, approved and updated since November 2015.
		Resolved	Finding 2D: The data recovery plan is within the disaster recovery plan and was last reviewed in April 2015. The schedule listed in the Data Retention Policies do not reflect the current configuration settings that CalSTRS has data retention processes occurring.
		In Progress	Finding 3A: The BD password settings for administrators, contractors and vendors are not in line with the password policy.
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 Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
CalSTRS System of Internal Controls		Resolved	Finding 1: We could not find evidence that fraud risk is assessed consistently throughout the organization.
Retiree Validation		Resolved	Finding 1: Some benefit recipients do not respond to proof of life (POL) requests and continue to receive benefit payments. A process has not been developed for providing guidance on when to end POL validation efforts and stop benefit payments.
		Resolved	Finding 2: A process to notify Customer Service of benefit recipients who have not returned appropriate forms has not been developed.
		Resolved	Finding 3A: DaSB has not reassessed the age criteria in the last 10 years for benefit recipients living in the United States.
		Resolved	Finding 3B: DaSB has not reassessed in the last 10 years the frequency and requirements used to validate POL for OOC benefit recipients.
		Resolved	Finding 4A: The Process Unreported Death (URD) POL Documents Procedure states there is only one acceptable method to provide proof of life; however, there are three.
		Resolved	Finding 4B: Indirect Notification of Death (INOD) process procedure does not reflect the current practice of performing a cursory monthly and quarterly review of the Recipients on Holds List.
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.

SUMMARY-Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
IT Service Management-Change Management (cont.)		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 3 days prior to implementing the change.
IT Service Management – Patch Management		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.
		In Progress	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.
Incentive Compensation		In Progress	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.

SUMMARY-Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
Fixed Income Investments		In Progress	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.
Pension Benefit Information, LLC		Resolved	Finding 1A. PBI is required by contract to submit invoices with five required elements. Invoices sampled were missing two of five required elements – (1) itemized description of services including detailed cost and date(s) of services and (2) fiscal year in which services were rendered.
		Resolved	Finding 1B. PBI did not complete a Certification of Contractor’s Employee Background Investigation Form for four staff prior to providing services to CalSTRS. Upon inquiry at the conclusion of the audit, PBI submitted the required certifications.
		Resolved	Finding 1C. PBI did not have four staff individually sign a CalSTRS Information Security Confidentiality and Non-Disclosure and Acceptable Use Agreement prior to providing services to CalSTRS. Upon inquiry at the conclusion of the audit, PBI submitted the required forms.
		In Progress	Finding 1D. PBI does not participate in the Disabled Veteran Business Enterprise (DVBE) as required by the contract.
		Resolved	Finding 1E. PBI did not obtain prior approval or notify CalSTRS of key personnel changes and did not obtain a Form 600-H within five calendar days for the new key personnel. Upon inquiry at the conclusion of the audit, PBI submitted the required form.

SUMMARY-Findings Less Than One Year Old			
Audit Projects	Significance Rating	Resolution Status	Findings
Pension Benefit Information, LLC (cont.)		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.
		Resolved	Finding 1G. PBI did not provide data findings of the Death Match and Obituary Match within five business days of receipt of the electronic request from CalSTRS.
		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.

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.