



## **Audits & Risk Management Committee**

### **Item Number 5 – Open Session**

**Subject:** 2020 Internal Audit Plan Final Progress Report

**Presenter(s):** Mike Dutil / Roseanne Oyoung

**Item Type:** Information

**Date & Time:** March 5, 2021 – 15 minutes

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**Attachment(s):** Attachment 1 – Employer Audit Year End Results

Attachment 2 – Internal Audit Year End Results

**PowerPoint(s):** PowerPoint 1 – 2020 Internal Audit Plan Results

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#### **PURPOSE**

The purpose of this item is to present the Audit Services' Calendar Year 2020 Audit Plan results.

#### **DISCUSSION/SUMMARY**

The Audits and Risk Management (ARM) Committee approved the 2020 Audit Plan (Plan) at the November 2019 meeting. In accordance with the Audit Services' Charter and the *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), the Chief Auditor presents periodic reports to inform the Committee on the status and results of the Plan.

The Plan was designed to provide coverage of key risks, given the existing staff and approved budgets. Audit Services completed an annual risk assessment of employers and CalSTRS operations to develop the Plan, as required by the IIA Standards. The audits were designed to provide assurance that management identified key risks in achieving CalSTRS strategic goals and objectives and sufficiently mitigated those risks to an acceptable level.

The Plan results provide an overview of the accomplishments, audit results, audit findings, appeals, and systemic findings of both the Employer Audit and Internal Audit programs within Audit Services. The detailed results are summarized in Attachments 1 and 2, respectively.

## Employer Audits

### Employer Audit Results

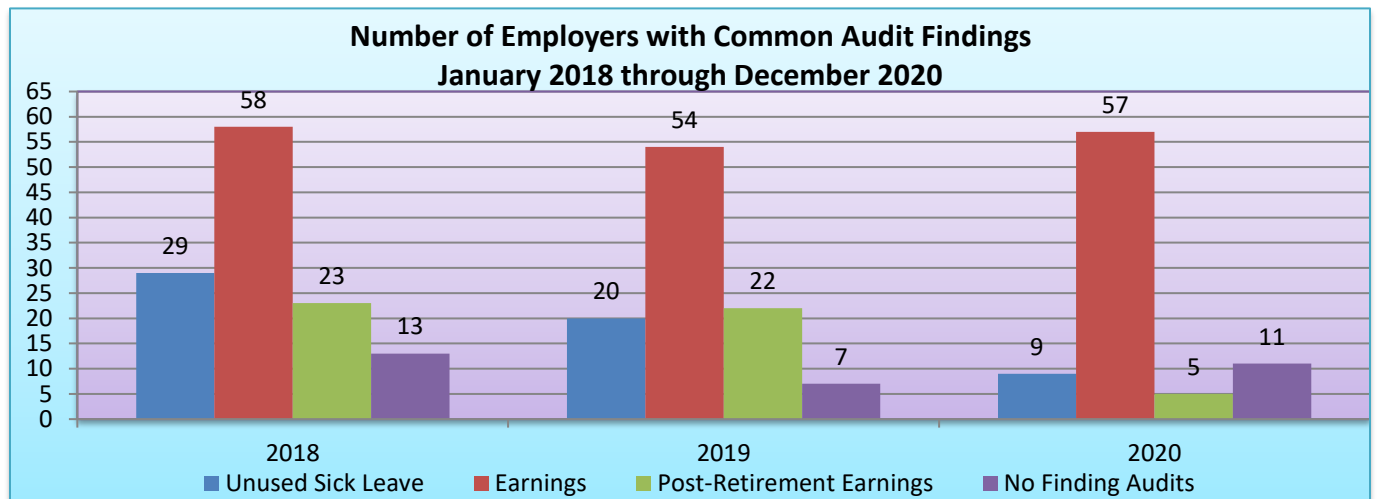
The employer audit team completed a total of 74 audits, of which 59 were limited scope audits specifically focused on one-time payments, special compensation, post-retirement earnings and unused sick leave. For the limited scope audits, we utilize data analytics to select the Employers to be audited. Approximately 37,000 or 8 percent of CalSTRS members were employed by the 74 audited employers (County Offices of Education, School Districts, Community Colleges, etc.). An overview and summary of employer audit results is included as Attachment 1.

Overall, staff identified a total of 160 findings. Compared to the average percentage per finding totals from January 2018 through December 2020, the 2020 finding percentages for all finding types decreased, except for the Earnings. This was expected as 52 (70 percent) of the audits were limited scope audits that specifically focused on reported earnings. The percentage of no finding audits also increased. Full-scope audits may contain at least one or all finding types within one audit.

Table 1: Number of Employers with Common Audit Findings

Number of Employers with Common Audit Findings – January 2018 through December 2020									
PLAN YEAR	NUMBER OF AUDITS	UNUSED SICK LEAVE		EARNINGS		POST-RETIREMENT EARNINGS		NO FINDING AUDITS	
		Number of Employers	Percentage of Audits	Number of Employers	Percentage of Audits	Number of Employers	Percentage of Audits	Number of Employers	Percentage of Audits
2018	80	29	36.25%	58	72.50%	23	28.75%	13	16.25%
2019	86	20	23.26%	54	62.79%	22	22.58%	7	8.00%
2020	74	9	12.16%	57	77.02%	5	6.75%	11	14.86%
<b>Totals</b>	<b>240</b>	<b>58</b>	<b>24.16%</b>	<b>169</b>	<b>70.41%</b>	<b>50</b>	<b>20.83%</b>	<b>31</b>	<b>12.91%</b>

Illustration 1: Number of Employers with Common Audit Findings



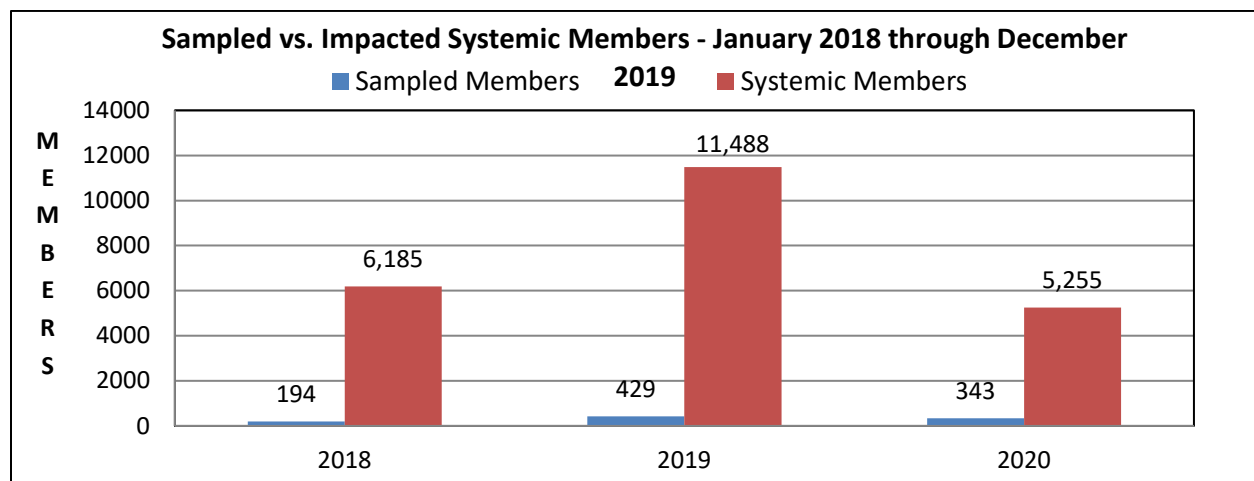
Systemic Findings

Of the 74 completed audits, 56 (76 percent) had at least one systemic finding. As of January 21, 2021, 45 of the 56 employers with systemic findings identified 5,255 additional members affected by the audit findings, in which only 343 members were sampled.

Table 2: Number of Employers with Systemic Findings and Impacted Members

Number of Employers with Systemic Findings and Impacted Members				
Total Employer Audits	Employers with Systemic Findings	Employers Identifying Systemic Member Population	Sampled Members	Systemic Members
74	56	45	343	5,255

Illustration 2: Members Sampled vs. Impacted Systemic Members



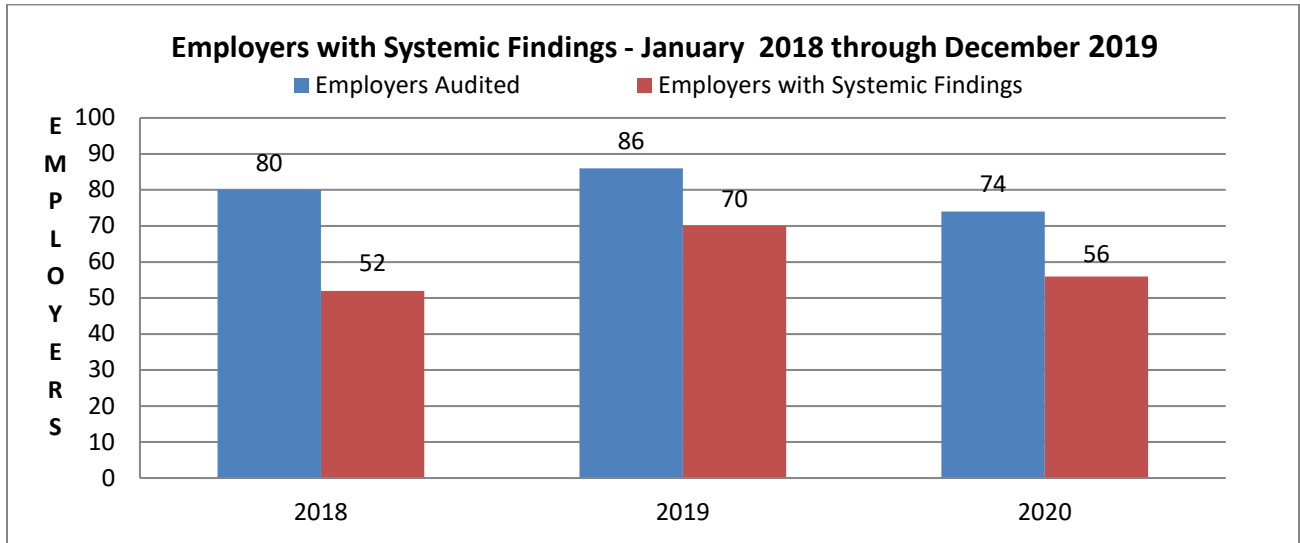
Member Account Services continues to work with the remaining employers to ensure compliance with the findings’ corrective action plan. See Attachment 1, pages 7 through 10, for specific details regarding the 56 employers with systemic audit findings.

From January 1, 2018, through December 31, 2020, Audit Services completed 240 employer audits, in which 178 employers were found to have at least one systemic finding. During this period, Audit Services found a total of 548 findings, in which 301 findings were found to be systemic.

Table 3: Number of Employers with Systemic Findings

Number of Employers with Systemic Findings from January 2018 through December 2020						
Plan Year	Employers Audited	Employers with Systemic Findings	Percentage of Employers with Systemic Findings	Total Findings (Systemic & Non-Systemic)	Total Systemic Findings	Percentage of Findings that are Systemic
2018	80	52	65%	178	75	42%
2019	86	70	81%	210	122	58%
2020	74	56	76%	160	104	65%
<b>Totals</b>	<b>240</b>	<b>178</b>	<b>74%</b>	<b>548</b>	<b>301</b>	<b>55%</b>

Illustration 3: Employers with Systemic Findings

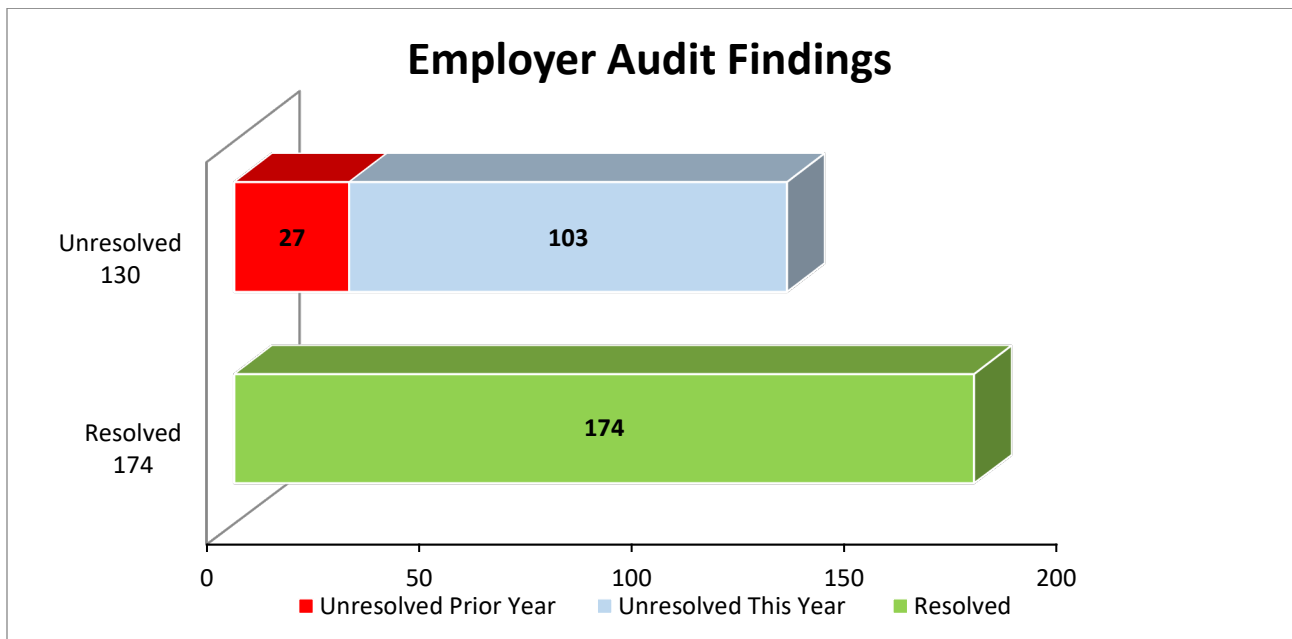


Status of Findings – Employer Audit

During the twelve-month period from January 1, 2020, through December 31, 2020, the employer audit team reported 160 new findings. During the same period, 174 employer audit findings from both previous and current years were resolved. Overall, 130 findings remain in progress, which consists of the following:

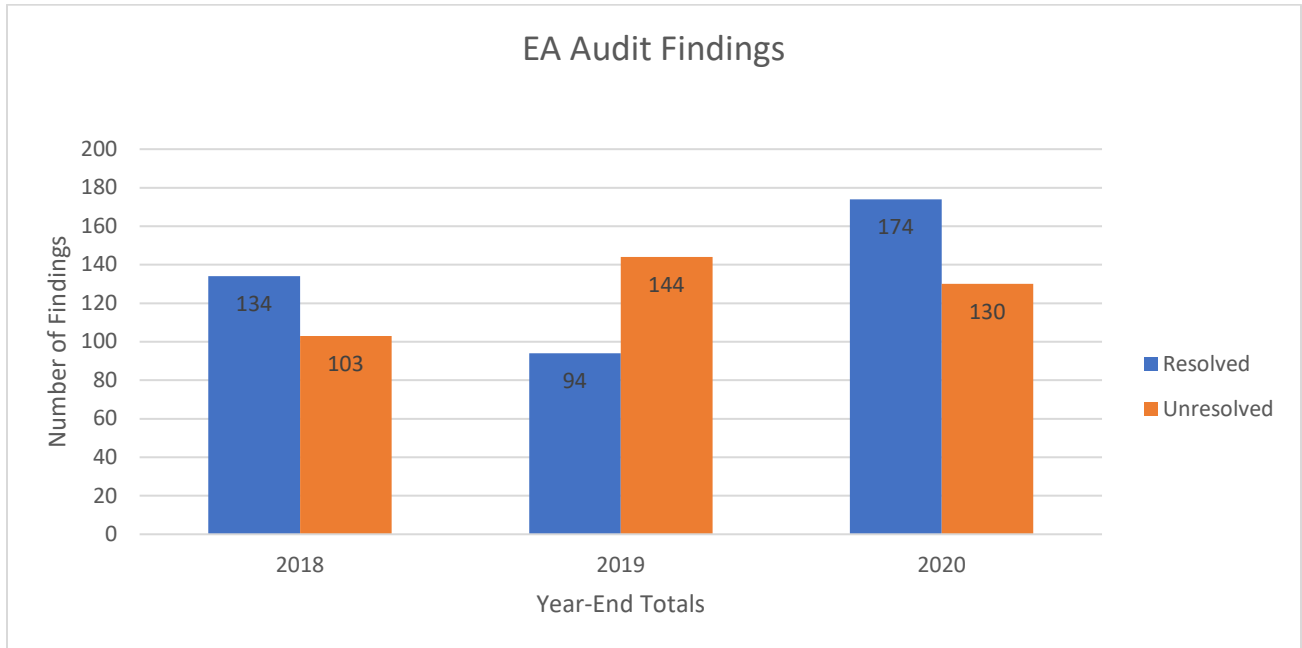
- Twenty-seven audit findings from the prior year
- One hundred and three audit findings from the current year

Illustration 4: Employer Audit Findings



The upward trend of Employer Audit findings is due to the increase of completed employer audits. Member Account Services continues to work with the Employer to correct the unresolved prior year findings.

Illustration 5: Employer Audit Finding Resolution Trend



## Internal Audits

### Internal Audit Results

The internal audit team completed nine audits in the 2020 Calendar Year Audit Plan (Table 4) that resulted in 17 internal audit findings. For this reporting period, Audit Services completed four audits. The executive summaries of these reports are in Attachment 2.

### Contracted Audit Results

Audit Services contracts with external audit firms to perform specialized internal audits of Investments and Information Technology Services. For this reporting period, Audit Services facilitated the completion of one contracted audit related to Investments and one contracted audit related to Information Technology. The executive summary of the Investment audit which resulted in one finding is in Attachment 2. The Information Security Assessment will be presented at the March 2021 Teachers' Retirement Board closed session. Currently, there are four contracted audits in progress: (1) Business Direct - Information Technology Application Controls, (2) Global Equity, (3) Innovative Strategies, and (4) Cash Management.

Table 4: 2020 Internal Audit Plan Results – Completed Audits

2020 INTERNAL AUDIT PLAN RESULTS	
Internal Audits	Contracted Audits
<ul style="list-style-type: none"> <li>○ Pension Solution – START System Findings</li> <li>○ Pension Benefit Information, LLC</li> <li>○ Employer Reporting</li> <li>○ Business Continuity</li> <li>○ Operational Performance Reporting</li> <li>○ Headquarters Expansion Billing</li> <li>○ Incentive Compensation</li> <li>○ Telework</li> <li>○ Global Reporting Initiative - Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>○ Fixed Income</li> <li>○ Information Security</li> <li>○ Independent Financial Statement Audits</li> </ul>

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 implementing 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. Audit Services verifies the resolution of a finding when management reports it as resolved. From October 2020 through January 2021, management resolved 23 of the 60 (38%) outstanding internal audit findings, demonstrated in the figure below. Details of findings are in Attachment 2.

Illustration 5: Internal Audit Findings

