



Audits & Risk Management Committee

Item Number 2 – Open Session

Subject: Approval of Minutes of the November 6, 2020, Audits and Risk Management Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: March 5, 2021 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Audits & Risk Management Committee Meeting

November 6, 2020

OPEN SESSION

LOCATION: Web Conference

COMMITTEE MEMBERS PRESENT

Betty Yee, State Controller, Chairperson

Joy Higa, Vice Chairperson

Karen Yamamoto

Jennifer Whitaker, representing the Director of Finance, Keely Bosler

Matthew Saha, representing State Treasurer, Fiona Ma

Keith Yamanaka, representing State Superintendent of Public Instruction, Tony Thurmond

OTHER BOARD MEMBERS PRESENT

Denise Bradford

Lynn Paquin, representing the State Controller, Betty Yee

STAFF PRESENT

Jack Ehnes, Chief Executive Officer

Christopher Ailman, Chief Investment Officer

Brian J. Bartow, General Counsel

Lisa Blatnick, Chief of Administrative Services

Ashish Jain, Chief Technology Officer

Cassandra Lichnock, Chief Operating Officer
Bill Perez, Chief Benefits Officer
Julie Underwood, Chief Financial Officer
Scott Chan, Deputy Chief Investment Officer
Larry Jensen, Chief Auditor
Cheryl Cervantes Dietz, Director, Enterprise Compliance Services
Mike Dutil, Supervising Management Auditor, Employer Audits
Roseanne Oyoung, Supervising Management Auditor, Internal Audits
Rick Reed, System Actuary
Ryan Dunlevy, Counsel

OTHERS PRESENT

Dr. Robert Yetman (Audits and Risk Management Committee Financial Expert)
Jen Aras, Crowe LLP
Kevin Smith, Crowe LLP
Brenda Torres, Crowe LLP
Pat Geyer, CalRTA

A quorum being present, Chairperson Yee called the Open Session meeting of the Audits and Risk Management Committee meeting to order at 1:00 p.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

MOTION duly made by Ms. Yamamoto, seconded by Ms. Higa, and carried to approve the Committee Agenda.

Members Voting	Aye	Nay	Abstain
Mr. Higa	X		
Ms. Yamamoto	X		
Ms. Whitaker, for the Director of Finance	X		
Mr. Saha, for the State Treasurer	X		
Mr. Yamanaka, for the Superintendent of Public Instruction	X		
Chairperson Yee	X		

II. APPROVAL OF MINUTES FOR THE JULY 17, 2020, AUDITS AND RISK MANAGEMENT COMMITTEE MEETING – OPEN SESSION (Item 2)

MOTION duly made by Ms. Higa, seconded by Ms. Yamamoto, and carried to approve the minutes for the July 17, 2020 Audits and Risk Management Committee meeting.

Members Voting	Aye	Nay	Abstain
Mr. Higa	X		
Ms. Yamamoto	X		
Ms. Whitaker, for the Director of Finance	X		
Mr. Saha, for the State Treasurer	X		
Mr. Yamanaka, for the Superintendent of Public Instruction	X		

Chairperson Yee	X		
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III. ANNUAL REPORT OF BENEFIT PAYMENT MODIFICATIONS FOR FY 2019-20 (Item 3)

The committee received the Annual Report of Benefit Payment Modifications for Fiscal Year 2019-20. The committee discussed the benefit modifications resulting in both underpayments and overpayments by benefit type and fiscal year for the last three fiscal years.

IV. 2020 INTERNAL AUDIT PLAN, PROGRESS REPORT (Item 4)

The committee received the Audit Services' Calendar Year 2020 Audit Plan Progress Report, which included an overview of Employer Audit results as of October 8, 2020 and Internal Audit results. The committee discussed the completion of 60 of the 72 employer audits in the plan, including 11 full-scope audits and 49 limited-scope audits. The committee discussed the three final audit reports Internal Audits issued this reporting period, which include Operations Performance Reporting, Headquarter Expansion Billing, and Pension Solution START System. The committee also discussed Internal Audits' 3 in-progress audits, which include Business Continuity, Telework, and Third Party Vendor: Pension Benefit Information.

V. CALSTRS INDEPENDENT FINANCIAL STATEMENT AUDITOR REPORTS FOR THE YEAR ENDED JUNE 30, 2020 (Item 5)

a. Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information for the Year Ended June 30, 2020

The committee received the report for the audit of CalSTRS' Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information for the Fiscal Year Ended June 30, 2020 from Ms. Torres, Ms. Aras, and Mr. Smith. The audit included the Independent Auditor's Report, the Report to Those Charged with Governance, and the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

The committee discussed the auditor's report and the accompanying financial statements of CalSTRS, as well as the purpose of the audit. The committee also discussed the auditor's opinions from the report. The committee considered the auditor's findings, including a deficiency in internal controls over reporting the fair value and fair value hierarchy of certain co-investments within the private equity portfolio. The committee heard from Dr. Yetman regarding areas of deficiency. The committee heard from Mr. Ailman, Mr. Chan, and Ms. Underwood regarding CalSTRS' plan going forward.

b. Other Pension Information – State Teachers' Retirement Plan for the Year Ended June 30, 2020

The committee received the reports for the audit of CalSTRS’ Other Pension Information – State Teachers’ Retirement Plan for the Year Ended June 30, 2020 from Ms. Torres, Ms. Aras, and Mr. Smith. The audit included the Independent Auditor’s Report, the Report to Those Charged with Governance, and the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

The committee discussed the role of the external auditor with respect to this report and the auditor’s findings. The committee discussed the auditor’s findings with respect to internal controls over the Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity of the State Teachers’ Retirement Plan for the year ended June 30, 2020.

c. Other Postemployment Benefits Information – Medicare Premium Payment Program for the Year Ended June 30, 2020

The committee received the reports for the audit of CalSTRS’ Other Postemployment Benefit Information – Medicare Premium Payment Program for the Year Ended June 30, 2020 from Ms. Torres, Ms. Aras, and Mr. Smith. The audit included the Independent Auditor’s Report, the Report to Those Charged with Governance, and the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. The committee discussed the purpose of the audit and the auditor’s findings.

MOTION duly made by Ms. Whitaker, seconded by Ms. Higa, and carried to accept the independent financial statement auditor reports from Agenda Items 5a, 5b, and 5c; and adopt the proposed resolution on ARM 126.

Members Voting	Aye	Nay	Abstain
Mr. Higa	X		
Ms. Yamamoto	X		
Ms. Whitaker, for the Director of Finance	X		
Mr. Saha, for the State Treasurer	X		
Mr. Yamanaka, for the Superintendent of Public Instruction	X		
Chairperson Yee	X		

VI. 2020 MANAGEMENT LETTER (Item 6)

The committee received the Management Letter for the year ending June 30, 2020 from Mr. Jensen. The Management Letter was prepared by Crowe LLP and outlines deficiencies in internal control that are not considered significant or material. The committee discussed deficiencies in internal control, such as the completeness and accuracy of active member data, census data used to compute the Total and New OPED Liability of the MPP Program, START Administrator account monitoring, and the precision of financial statement review. The committee discussed the recommendations for taking corrective actions provided in the Management Letter, and Management’s responses, and the exceptional transparency of Crowe LLP and CalSTRS’ management. The committee heard from Dr. Yetman and Ms.

Torres, who explained the repeat findings, and CalSTRS’ overall improvement in those areas.

VII. 2021 ENTERPRISE COMPLIANCE PLAN (Item 7)

The committee received the Enterprise Compliance Services’ 2021 Compliance Plan from Ms. Dietz. The committee discussed Enterprise Compliance Services’ compliance framework, which aligns with key regulatory requirements, guiding frameworks, and other leading practices. The committee discussed how the plan continues to develop compliance principles, standards, and a strong ethical culture. The committee also discussed the COVID-19 pandemic and how it has affected Enterprise Compliance Services activities.

VIII. 2021 INTERNAL AUDIT PLAN RISK ASSESSMENT (Item 8)

The committee received Audit Services’ 2021 Internal Audit Plan Risk Assessment from Mr. Dutil and Ms. Oyoung. The committee discussed Audit Services’ risk assessment for employer audits, including its comprehensive list of risk factors, values, and descriptions. The committee discussed Audit Services’ plan to perform 20 full-scope audits and 86 limited scope reviews focusing on special compensation, unused sick leave and post-retirement earnings during calendar year 2021.

IX. 2021 INTERNAL AUDIT PLAN (Item 9)

The committee received Audit Services’ proposed 2021 Internal Audit Plan, which outlines the assignments to be carried out and their respective priorities, and provides an overview of Audit Services’ mission, scope of work, independence and objectivity, and allocation of resources. The committee heard from Dr. Yetman, who explained the scope of audits during a pandemic.

MOTION duly made by Ms. Yamamoto, seconded by Ms. Whitaker, and carried to approve the 2021 Internal Audit Plan.

Members Voting	Aye	Nay	Abstain
Mr. Higa	X		
Ms. Yamamoto	X		
Ms. Whitaker, for the Director of Finance	X		
Mr. Saha, for the State Treasurer	X		
Mr. Yamanaka, for the Superintendent of Public Instruction	X		
Chairperson Yee	X		

X. REVIEW OF INFORMATION REQUESTS (Item 10)

There were no requests for information.

XI. DRAFT AGENDA FOR THE NEXT COMMITTEE MEETING (Item 11)

There were no changes to the draft agenda.

XII. OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC (Item 12)

The committee heard from Ms. Geyer, who commended CalSTRS staff.

XIII. ADJOURNMENT

There being no further business to conduct, Chairperson Yee adjourned the Audits and Risk Management Committee meeting at 2:58 p.m.

Jack Ehnes, Chief Executive Officer
And Secretary to the Teachers' Retirement Board

Betty Yee, Chairperson

Prepared by: Ryan Dunlevy, Counsel