

December 20, 2019

Julie Lee, Acting Secretary
California Government Operations Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

Dear Ms. Julie Lee,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the State Teachers' Retirement System submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Julie Underwood, Chief Financial Officer, at (916) 414-1678, junderwood@calstrs.com.

GOVERNANCE

Mission and Strategic Plan

Background

The California Teachers' Retirement System (CalSTRS) administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with various deferred compensation plans and programs.

The CalSTRS provides pension benefits, including disability and survivor benefits, to California full-time and part-time public-school teachers from prekindergarten through community college in positions performing creditable service under the Defined Benefit Program. Teachers' Retirement Law (California Education Code Section 22000 et seq.), enacted and amended by the California Legislature, established these plans with CalSTRS as the administrator. The terms of the plans may be amended through legislation.

The Teachers' Retirement Board (TRB) has exclusive control over the administration of the retirement system plans and the investment of funds, makes rules, sets policies, and has the authority to hear and determine all facts pertaining to application for benefits under the retirement system. It is composed of 12 members:

- Five members appointed by the Governor and confirmed by the Senate: one school board representative, one retired CalSTRS member and three public representatives.
- Four ex-officio members: the Superintendent of Public Instruction, the State Treasurer, the State Controller and the Director of Finance.
- Three member-elected positions representing current educators.

The CalSTRS 2019-22 Strategic Plan was adopted by the TRB March 27, 2019. The strategic plan provides overarching goals and objectives to guide our collective direction and measures to enable our

success. Progress on achieving our strategic plan is reported and evaluated annually through an accomplishments report to the TRB. CalSTRS establishes an annual business plan based on a TRB-approved multi-year strategic plan. The annual business plan includes a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and goals and objectives built on the foundation of CalSTRS' mission, vision and core values. The paragraphs that follow outline these components.

Our Mission

Securing the financial future and sustaining the trust of California's educators.

Our Vision

Your reward – A secure retirement

Our reward – Getting you there

CalSTRS has core values which are a set of attitudes, beliefs and behaviors that define CalSTRS and its employees.

Our Core Values

- CUSTOMER SERVICE—We never compromise on quality as we strive to meet or exceed the expectations of our customers.
- ACCOUNTABILITY—We operate with transparency and accept responsibility for our actions.
- LEADERSHIP—We model best practices in our industry and innovate to achieve higher standards.
- STRENGTH—We ensure the strength of our system by embracing a diversity of ideas and people.
- TRUST—We conduct ourselves with integrity, acting ethically in every endeavor.
- RESPECT—We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty and courtesy.
- STEWARDSHIP—We recognize our fiduciary responsibility as the foundation for all decision-making.

Board Strategic Goals

The strategic plan has four goals with supporting objectives and measures of success.

Goal 1: Financial/Governance - Ensure a well-governed, financially sound trust fund.

- a. Achieve full funding of the Defined Benefit Program by June 30, 2046.
- b. Integrate CalSTRS' sustainable investment and stewardship strategies, which support long-term value creation and educate and inform interested parties.
- c. Leverage investment cost information to yield long-term benefits.
- d. Implement investment collaborative model leveraging all of CalSTRS resources.
- e. Enhance board meeting efficiency.

Goal 2: Digital Transformation - Leverage technology to securely transform business and service delivery models to maximize operational efficiency.

- a. Implement and integrate a highly adaptive pension administration system.
- b. Secure the confidentiality and integrity of data and member information.
- c. Enhance business resiliency capabilities. Explore advanced technology to securely gain business agility and enhance user experience.

Goal 3: Member/Employer - Strengthen partnerships and services to members, employers and stakeholders.

- a. Educate and inform CalSTRS constituent groups on strategic priorities.
- b. Enhance collaborative partnerships with employers to increase alignment on key initiatives and increase awareness about the value of CalSTRS defined benefit plan.
- c. Increase the accuracy, completeness and timeliness of employer reporting.
- d. Provide educational opportunities to improve the retirement readiness of CalSTRS' members.
- e. Grow Pension2 participation.

Goal 4: Organizational Strength - Grow capacity and enhance efficiency in alignment with the mission and vision.

- a. Develop board and staff competencies to respond to changing business environments.
- b. Improve business processes and reduce costs.
- c. Drive adoption of transforming business processes and technology.
- d. Hire, develop and retain staff to meet the needs of our changing business models and growth expectations.

Control Environment

As previously mentioned, CalSTRS reports to the TRB. The TRB has exclusive control over the administration of the retirement system plans and the investment of funds, makes rules, sets policies, and has the authority to hear and determine all facts pertaining to application for benefits under the retirement system. CalSTRS staff provides regular updates on the administration of the pension system and the investment of assets to the TRB and its six committees.

CalSTRS requires regular reviews and updates of its policies. As part of that exercise, procedure and internal control documents are reviewed and updated periodically. As part of normal operations, program areas also have quality assurance units that verify internal control effectiveness.

CalSTRS' senior management reports enterprise risk and risk management strategies to the TRB semi-annually. The TRB provides risk oversight generally and through various committees. Specifically, the Enterprise Risk Management team, working in conjunction with the Risk Champions Network and the Executive Risk Committee, have the responsibility of monitoring the organization's internal control effectiveness as part of the overall risk management efforts. The following represent many of the activities CalSTRS performs to ensure its internal controls are effective and managing risks as designed.

- Annually, CalSTRS maintains cross-functional, end-to-end risk and control matrices for critical processes. These matrices are designed to identify these processes, risks to the processes (including fraud) and the key control over the functions in the process flow.
- The Enterprise Compliance Services team works with various quality assurance units throughout CalSTRS to ensure critical areas meet legal and regulatory requirements as well as

adhere to organizational policies.

- Annually, CalSTRS requires that all staff complete an online information security training.
- CalSTRS Information Security and Enterprise Data Management offices provide active management for various cyber and data risk.
- CalSTRS provides all new employees with Accountability and Internal Controls training within the first year of employment. The chief financial officer regularly attends these trainings as a guest speaker.
- Annually, CalSTRS requires that all staff complete web-based Risk and Internal Controls Awareness training.
- Annually, an external auditor reviews CalSTRS internal controls as part of its audit of the financial statements. Additionally, CalSTRS Audits Services performs audits and reviews of various internal controls as part of completing its annual audit plan.
- Management addresses all concerns raised through internal and external audits as soon as possible. Management regularly reports its progress, addressing weakness identified through the audit process, to the TRB.

Management established and promotes CalSTRS' core values. Several ethics or whistleblower channels are available to all CalSTRS employees. The internal channels are the Ethics Hotline and Pension Abuse Reporting Hotline. The external channel is the California State Auditor Whistleblower Hotline.

CalSTRS completed its current workforce plan covering fiscal years 2018-22 in November 2018. The plan reflects CalSTRS' commitment to growing an engaged, highly skilled and diverse workforce. The underlying structure of the plan recognizes nearly 80% in accomplishments from the 82 recommendations initiated from the previous workforce plan. It also introduces six new strategic recommendations through data-driven examination of the current workforce and alignment with CalSTRS' Strategic and Business Plans. CalSTRS recognizes that strategic planning is critical to meeting the workforce changes of the future and plays a vital role to the organization's success.

Under the 2014-2018 strategic plan, (under which the current workforce plan was created) Strategic Goal 4: Workforce Transformation, was to "grow an engaged, highly skilled and diverse workforce." The CalSTRS Workforce Plan is a high-level analysis of the organization's workforce to address current and future needs. In alignment with CalSTRS' mission, vision and core values, it is the purpose of Human Resources to support the total operation in meeting its goals through its most valuable resource—its PEOPLE. This workforce plan is an updated version of the 2013-17 Workforce Strategy Plan. Included in this version is a review of the objectives established in the original plan and the many and varied accomplishments CalSTRS has achieved in the included years.

All employees are annually evaluated on performance, based on CalSTRS' core values and core competencies. Accountability is one of our core values. As such, all new hires are required to take a classroom training on accountability and CalSTRS core values.

Information and Communication

Reliable and Relevant Sources

CalSTRS Enterprise Strategy Management is responsible for organization-wide strategic management, business planning and enterprise performance, research and development, corporate sustainability and

continuous improvement processes. This group has responsibility to collect and communicate relevant and reliable information for operational, programmatic and financial decision making. CalSTRS' individual business areas work together to increase our ability to integrate performance data and conduct research to identify enterprise-wide issues used to inform the TRB and executive staff, to arrive at sound conclusions and make educated decisions. Together, these functions are instrumental in meeting and reporting on strategic goals for the organization. Below are some of the vehicles used to share the reliable and relevant information collected by this group.

- The Operations Performance Review is currently a quarterly meeting attended by executives and directors who provide direct and indirect support to CalSTRS' operational processes, to engage in an open and frank dialogue regarding achievement of key performance indicators at a reasonable cost, as set by the Executive Team.
- The Customer Service Performance Review is currently a quarterly meeting attended by directors and executives who provide direct services to CalSTRS' customers and stakeholders such as our members, beneficiaries, and employers. The Customer Service Performance Review is designed to monitor progress on the TRB Service Performance Objectives and plan improvements related to the services provided to our members and other stakeholders.
- The Performance Review is currently held quarterly and attended by all management, where information is shared on division performance in the prior quarter and guidance is provided for action in future quarters.
- Management provides an annual report of accomplishments to the TRB.

Internal Communication

CalSTRS has several additional vehicles to share information regarding results of monitoring activities with management and the rest of the organization. To highlight some examples: the risk champions currently meet monthly and the Executive Risk Committee currently meets quarterly to share experiences or concerns amongst senior management and review the quarterly risk matrix. In addition, management meets quarterly in leadership forums to provide training opportunities and venues to discuss current areas of concerns or sensitivity. CalSTRS' chief executive officer also provides information to staff through semiannual Town Hall meetings. Finally, CalSTRS utilizes all-staff emails and an intranet site to share information to staff at all locations.

External Communication

CalSTRS constantly maintains and updates content on the CalSTRS.com website with information for our members and the public. We hold regular TRB meetings which are streamed to the public via the CalSTRS.com website. Members of the public are also welcome to attend the meetings in person. CalSTRS externally releases several annual reports including the Actuarial Valuation, Comprehensive Annual Financial Report, CalSTRS Financial Statement, Corporate Governance Annual Report, Green Initiative Task Force Report and Sustainability Report. Additional reports include the Demographic Study, Health Care and Retirement Security, Diversity in the Management of Investments, Retirement Readiness Assessment Report, and Investing in a Time of Climate Change Study.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and

verifying that the State Teachers' Retirement System monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Jack Ehnes, Chief Executive Officer; Phillip Burkholder, Financial Accountant III; and Julie Underwood, Chief Financial Officer.

Monitoring Activities

CalSTRS senior management reports enterprise risks and risk management strategies to the TRB semi-annually. The TRB provides risk oversight generally and through various committees. The Enterprise Risk Management team, working in conjunction with the Risk Champions Network and the Executive Risk Committee, have the responsibility of monitoring the organization's internal control effectiveness as part of the overall risk management efforts. The following represent activities CalSTRS performs to ensure its internal controls are effective and managing risks as designed.

- Annually, CalSTRS maintains cross-functional, end to end risk and control matrices for critical processes. These matrices are designed to identify these processes, risks to the processes, and the key control over the functions in the process flow.
- The Enterprise Compliance Services team works with various quality assurance units throughout CalSTRS to ensure critical areas meet legal and regulatory requirements as well as adhere to organizational policies.
- CalSTRS Information Security and Enterprise Data Management offices provide active management for various cyber and data risk.
- CalSTRS requires all new employees complete an Accountability and Internal Controls training within the first year of employment. The chief financial officer regularly attends this training as a guest speaker.
- Annually, CalSTRS requires all staff complete a web-based Risk Awareness and Internal Controls Training.
- Management addresses all concerns raised through Internal and External audits as soon as possible. Management regularly reports its progress addressing weaknesses identified through the audit process to the TRB.
- Annually, CalSTRS requires all staff to complete an online information security training.

RISK ASSESSMENT PROCESS

The following personnel were involved in the State Teachers' Retirement System risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, performance metrics, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

Risk Identification

CalSTRS' Enterprise Risk Management policy requires each branch executive to perform an annual branch risk assessment. Risk champions from each branch lead their area's risk assessment. Each

branch's risk assessment considers a variety of risks including but not limited to errors, omissions, fraud, etc. Beginning in 2020, the risk assessments are required to be recorded in a standardized tool and delivered to the Enterprise Risk Management team upon completion. The standardized tool includes columns to collect information on risks, inherent and residual risk scores and internal controls. Risks are shared and discussed at the Risk Champions Network meetings. The Risk Champions Network recommend which risks should be considered at the enterprise level. The Enterprise Risk Management team, with input from the risk champions, compile the quarterly risk matrix and heat map and presents the results of this process to the Executive Risk Committee which currently meets quarterly. The Executive Risk Committee has final authority of which risks are recorded and tracked in the enterprise level matrix and TRB reports. Once the Executive Risk Committee has determined what risks require management at the enterprise level, they design mitigation strategies and allocate the necessary resources. CalSTRS executives report enterprise level risks semi-annually to the TRB in open session.

Risk Ranking

Currently CalSTRS organizes risks into 10 risk categories: Pension Funding—Investments, Pension Funding—Actuarial, Pension Funding—Contribution Rates, Pension Administration, Financial Reporting, Pension Reform, Information Security, Operational, Reputational, and Transformational Change. Each of the 10 risk categories contains two to 11 sub-risks. The identified risks are scored using three metrics: impact, probability and velocity. Each metric is based on a five-point scale and risks are evaluated for both inherent and residual risks. CalSTRS then inputs the three metrics scores into a formula to calculate a single risk score based on a 50-point scale. Risk scores are divided into five levels based on the score value: very high (41-50), high (31-40), medium (21-30), low (11-20) and very low (1-10). Each sub-risk is also given a weighted percentage within each risk category. Finally, the 10 risk categories are plotted on a heat map using a calculation of all the sub-risk scores and prioritization weights to show overall priority and scale. The heat map placement is reviewed by the Executive Risk Committee before presentation to the TRB.

RISKS AND CONTROLS

Risk: Information Security

There is a risk that loss of information security or compliance violations due to unauthorized or unintentional breaches could result in operational disruption, financial loss and/or reputational damage.

Control: A - Information Security: Monitoring

Conduct annual independent cybersecurity assessment, maintain incident response plan and conduct internal Information Security Office audits focused on cybersecurity. (Ongoing)

Stay current with security threats, zero-day attacks and industry trends. (Ongoing)

Control: B - Information Security: Risk Sharing

Maintain appropriate cyber security insurance coverage. (Ongoing)

Control: C - Information Security: Compliance

Conduct annual Information Security Office compliance assessments to test adherence to security policy standards. (Completed December 2019)

Control: D - Information Security: Staff Education

Establish Information Security Office policies to include security requirements, controls and responsibilities. (Ongoing)

Conduct annual information security awareness online training for all employees. (Completed March 2019)

Annual affirmation of CalSTRS confidentiality, non-disclosure and acceptable use agreement by all employees. (Completed April 2019)

New employee onboarding security awareness training course, affirmation of CalSTRS confidentiality, non-disclosure and acceptable use agreement. (Ongoing)

Phishing email test exercises sent to staff and management. (Ongoing)

Risk: Funding Risk

There is a risk that the CalSTRS pension fund may not achieve full funding by 2046 as a result of CalSTRS inability to adjust contribution rates to respond to fluctuations in funding levels caused by demographic experience, economic experience such as lower than expected investment return over the long term and/or pension reform legislation impacting CalSTRS current rate setting authority.

Control: A - Funding Risk: Investments

Continuous oversight and monitoring of fund and asset class strategies and positions using risk management tools and platforms designed for the unique nature of the underlying securities. (Ongoing)

Coordinate the timing of the asset/liability study and experience study to ensure that the two are in close adherence and that the actuarial investment assumptions reflect the asset allocation policy. (Ongoing)

Monitor costs and operate the CalSTRS Plan in an efficient and cost effective manner to reduce the drag on fund performance. (Ongoing)

Control: B - Funding Risk: Actuarial Monitoring

Monitor demographic trends as part of annual actuarial valuation process. Next target completion May 2020.

Conduct regular actuarial experience studies to assess the reasonableness of actuarial assumptions. Actuarial experience studies are generally performed every four years. The next study scheduled to be completed in January 2020.

Control: C - Funding Risk: Actuarial Reporting

Assess funding levels and adequacy of contributions through the annual actuarial valuation and recommend contribution rate adjustments as necessary to achieve full funding by 2046. (Ongoing)

Monitor funding levels and adequacy of contributions as part of annual report to the TRB reviewing CalSTRS funding levels and risks. (Ongoing)

Control: D - Funding Risk: Pension Reform

Pension reform efforts and threats to the CalSTRS funding plan, including legislation and initiatives, could substantially reduce guaranteed defined benefits or funding or compromise contractual rights, creating litigation challenges. The following activities are in place to mitigate these risks:

- Monitor court cases, educate stakeholders and policymakers on the value of the CalSTRS Defined Benefit Program in achieving retirement security, conduct research on contractual provisions of CalSTRS' plans, respond to research reports, articles, etc. which assert benefit changes, that alter members' contractual rights, are legally permissible or challenge the viability of teachers' defined benefit plan. (Ongoing)
- Work to address "crowding out" comments regarding pension costs. Crowding out refers to pension reformers' assertions that pension costs are reducing public entities' ability to pay for standard operating costs. (Ongoing)

Risk: Mission Critical: Organizational Growth

There is a risk of inadequate short-term office space and parking caused by organizational expansion which could result in recruitment challenges. There is also an ongoing risk to staff health and safety inherent to a large organization with multiple buildings/locations.

Control: A - Organizational Growth: Physical Space

Increase staff participation in workforce telework policy. (Ongoing)

Monitor work space vacancy report by floor and expand hotel desk options. (Ongoing)

Control: B - Organizational Growth: Parking Capacity

Develop a thorough alternate transportation plan by July 2020.

Continuous monitoring and assessment of parking space availability. (Ongoing)

Identify alternate parking options for staff in CalSTRS headquarters' immediate area. (Ongoing)

Place new headquarters staff on a parking 'wait list.' (Ongoing)

Control: C - Organizational Growth: Security

Update emergency response procedures to include burglary, and to include notification to the Information Security Office for any critical incident resulting in theft or vulnerability to assets and information security. (Completed November 2019)

Roll out optional Move, Evacuate, Respond, Inform, Treat (MERIT) Training to all staff. (Scheduled for Spring 2020)

Implement risk mitigation strategies to address areas of top concerns identified in the security assessment of CalSTRS Headquarters and Member Service Center locations. (Ongoing)

Continue performing annual evacuation and relocation fire drills and training for the Building Emergency Response Team (BERT) at CalSTRS facilities. (Ongoing)

Monitor compliance with the Physical Security Policy. (Ongoing)

Risk: Mission Critical: New Pension Administration System

The risk that CalSTRS is unable to successfully implement a new pension administration system (Pension Solution) and transform the associated data and business processes within the established scope, schedule and budget.

Control: A - Mission Critical Risk: Project Oversight

Contract with Independent Project Oversight Committee and Independent Verification and Validation consultants who regularly report to the TRB about project status, risks and issues. (Ongoing)

Dedicated project director oversees all Pension Solution project activities. (Ongoing)

Board and executive reporting. (Ongoing)

Control: B - Mission Critical Risk: Project Management

Complete data preparation analysis, define conversion policies and approach for identified data anomalies and complete pre-conversion data cleansing. (Scheduled for September 2021)

Fit-gap analysis to develop strategies to enhance accuracy of project implementation schedule/scope/budget. (Completed July 2019)

Actively administer Pension Solution risk mitigation strategies as outlined in the project's Risk Mitigation Log. (Ongoing)

Continue to follow the work plan, schedule and action plan. (Ongoing)

Implementation of recommendations from readiness assessments and best practices from enterprise transition planning consultants. (Ongoing)

Control: C - Mission Critical Risk: Stakeholder Acceptance

Perform change readiness assessments for staff and employers. (Scheduled for July 2021)

Implementation of recommendations from readiness assessments and best practices from enterprise transition planning consultants. (Ongoing)

Increase awareness and desire for staff and stakeholders throughout the project lifecycle. (Ongoing)

Control: D - Mission Critical Risk: Maintain Legacy Pension System (START)

Technology Services staff to follow the CalSTRS System Development Life Cycle methodology and processes, which contains appropriate internal controls related to the implementation of START application changes. (Ongoing)

Ensure a roll-back plan is included for all START system change requests. Staff will utilize roll-back plan to restore system to prior state in cases where implementation of an application change is unsuccessful. (Ongoing)

Conduct a monthly regression test to confirm the monthly process to calculate benefit recipient payments and deductions is operating as expected before the production run. (Ongoing)

Monitor daily START batch jobs and reports to assure successful runs as well as on-going monitoring of the START technical environments to assure proper systems operations. (Ongoing)

Risk: Disaster Recovery/Business Continuity

There is a risk that CalSTRS may not be able to quickly and/or fully recover business operations in the event of a disaster which could result in a delay in benefit payments, business operations disruption and/or missed investment opportunities.

Control: A - Disaster Recovery: Disaster Recovery Vendor

Release request for proposal to procure a disaster recovery vendor to provide mission critical business processes to our members due to inaccessibility to technology systems. (Scheduled to award vendor March 2020)

Control: B - Disaster Recovery: Business Continuity Plan

Business areas that identify critical business processes in the Business Impact Analysis (processes with less than 32-day time sensitivities) work with Business Continuity to create a Business Continuity Team. The Business Continuity Plan is a guidebook for the teams to help perform their critical business processes during or after a disruption. Business Continuity meets with all team leads semi-annually to provide them with Business Continuity-related updates and kick off the Business Continuity Plan update process. (Ongoing)

The Information System Recovery Plan documents comprehensive procedures to quickly and effectively recover critical CalSTRS systems/applications following a service disruption. The Information System Recovery Plans are reviewed, updated and approved annually. (Ongoing)

Control: C - Disaster Recovery: Business Impact Analysis

Business Continuity Team conducts an organization-wide business impact analysis in order to gather information about CalSTRS' business and system recovery needs. Information gathered from the Business Impact Analysis is reviewed and approved by executives and filtered into the Business Continuity Plans. The Business Impact Analysis process is performed annually. (Ongoing)

Control: D - Disaster Recovery: Business Continuity Functional Exercises

Business Continuity and Disaster Recovery conduct an annual exercise with all CalSTRS critical business areas to test and verify that their business functions and the supporting Information Technology systems will be operational following a disruptive event or disaster. The exercise tests the functionality of the Disaster Recovery Information Technology solutions at our Business Resumption Center using a secondary infrastructure. (Ongoing)

Control: E - Disaster Recovery: Technology Recovery Plan

The Technology Recovery Plan documents CalSTRS recovery through the three Technology Recovery Plan Phases: Activation and Notification, Recovery and Reconstitution. The Technology Recovery Plan also describes roles and responsibilities, response procedures, alternate recovery locations and required resources and supports business continuity by recovering supporting systems for business functions/processes. The Technology Recovery Plan is reviewed, updated and approved annually. (Ongoing)

Critical systems are regularly replicated from CalSTRS Headquarters to a secondary infrastructure. (Ongoing)

In addition, to ensure redundancy at Headquarters, there are multiple internet circuits that provide redundancy for staff accessing the Internet from Headquarters. (Ongoing)

Risk: Reputational

There is a risk of reputational damage to CalSTRS caused by external or internal factors which could result in members, stakeholders and/or the public losing confidence in CalSTRS as a respected fiduciary of public funds.

Control: A - Reputational: Ethical Tone

To set and maintain a strong ethical tone for the organization, all new-hires receive a half-day classroom training on CalSTRS core values. (Ongoing)

Board members and staff receive annual ethics and fiduciary training. (Ongoing)

Control: B - Reputational: Environmental Sustainability Governance

To address increasing public and regulatory focus on Environmental Sustainability Governance, continue discussions during committee meetings to review sensitive investments. (Ongoing)

Control: C - Reputational: Public Comment

Create a framework for public comment during TRB regular and committee meetings. (Scheduled for January 2020)

Control: D - Reputational: External Communication

Develop communication strategies that address third party activists and monitor social media coverage of third parties. (Ongoing)

Maintain crisis communication policy which requires early identification of problems and development of mitigation strategies. (Ongoing)

Control: E - Reputational: Financial Assumptions

Inaccurate reporting could result in misperceptions of CalSTRS actuarial-calculated funding status as well as confusion between various media outlets on what the official number represents. This could cause loss of trust within CalSTRS' stakeholder base without understanding the actual funding status.

To control against inaccurate long-term financial assumptions, the organization ensures various assumptions are periodically reviewed, tested and updated. In addition, the organization responds to education needs from the TRB, media and/or constituents. (Next report is due to be completed in January 2020)

To guard against incomplete or inaccurate financial statement reporting; weaknesses in internal controls and unqualified/unmodified audit opinions: CalSTRS performs monthly reconciliations of significant accounts; analyzes multiple financial reports as additional internal control measures; consistently reconcile general ledger balances to subsidiary systems and information; and conducts quarterly reviews of the results as presented on CalSTRS financial statements and other Pension and Other Post Employment Benefits Information. (Ongoing)

Risk: Staffing/Workforce

There is a risk that CalSTRS lacks the ability to meet critical business functions or maintain service levels due to recruitment challenges, potential loss of subject matter experts and staff or leadership turnover.

Control: A - Staffing/Workforce: Job Classifications

Establish and/or modify job classification specifications to align with needed competencies within the organization. (Scheduled for Spring 2020)

Control: B - Staffing/Workforce: Recruitment

Continue to enhance recruitment strategy to attract a fully diversified workforce and maintain ongoing diversity and inclusion training. (Ongoing)

Control: C - Staffing/Workforce: Training and Development

Maintain and continue to enhance training and development, job shadowing and rotational assignment opportunities across the organization. (Ongoing)

Control: D - Staffing/Workforce: Transition Gap

Continue identifying critical functions and business knowledge loss and determine who will be the back-up. Acquisition of temporary positions to support knowledge transfer transition gap. (Ongoing)

Control: E - Staffing/Workforce: Service Levels

Monitor service levels through the annual organizational performance reviews. (Ongoing)

Control: F - Staffing/Workforce: Leadership Development

Utilize the Leadership Development Program and promote staff development academies and series. (Ongoing)

Support the manager onboarding strategy for leadership positions. (Ongoing)

CONCLUSION

The State Teachers' Retirement System strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Jack Ehnes, Chief Executive Officer

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency