

# Fiscal Year 2024-25 Audit Services Audit Plan

Audit Services completed a risk assessment for the purpose of developing the audit plan for Fiscal Year (FY) 2024-25. Audit Services aims to maximize its resources to provide reasonable coverage for activities believed to require the most attention based on risk assessment results. The audit plan is designed to provide coverage of key risks, considering existing staff and Audit Services approved budget. Although the audit plan contemplates a wide-ranging scope of activities, it does not provide coverage for all CalSTRS operations of systems.

As required by Audit Services' Charter (Charter) and the *Global Internal Audit Standards* (Standards), formerly known as the *International Standards for the Professional Practice of Internal Auditing*, Audit Services presents the audit plan to the Audits and Risk Management (ARM) Committee for approval. The audit plan aligns with CalSTRS Strategic Plan and incorporates management input, risk assessment results, and the enterprise risk management report. Proposed audits and audit objectives are designed to provide assurance that management has identified key risks and that management is sufficiently mitigating those risks to an acceptable level.

## **EMPLOYER AUDITS**

Employer Audits perform audits to ensure compliance with CalSTRS Teachers' Retirement Law in areas such as:

- remuneration in addition to salary (special compensation)
- pay rate and earnings (base compensation)
- unused sick leave
- membership
- post-retirement earnings

Employer Audits intends to complete 110 audits in the FY 2024-25 audit plan.

## **INTERNAL AUDITS – ASSURANCE AND ADVISORY SERVICES**

Internal Audits performs assurance and advisory services over CalSTRS governance, risk management and control processes. In conformance with the Standards, Internal Audits performs engagement-level risk assessments to determine the engagement objectives and scope.

Internal Audits will evaluate the adequacy and effectiveness of controls, efficiency of operations, safeguarding of assets, and reliability of reporting. When appropriate, Internal Audits will assess compliance with applicable laws, regulations, policies, contracts, and ethics. The following audit

plan activities are listed by the primary responsible branch. Additional branches may be included within the scope of work during the planning phase of the engagements.

Administrative Services Branch:

1. Advisory Board and Annual Meeting Travel Policy
2. Vendor Management
3. Business Continuity
4. Physical Security
5. Investments Incentive Compensation

Benefits & Services Branch:

6. Disability Benefits
7. Member Service Centers
8. Implementation of Assembly Bill 1667

Executive Branch:

9. GRI Sustainability

General Counsel Branch:

10. Data Retention
11. Information Security

Investments Branch:

12. Investment Procurement Policy
13. Trade Surveillance and Conflicts of Interest
14. Third Party Contract Compliance - State Street Bank
15. Investment Strategy and Risk

Technology Services Branch:

16. Project Management
17. Configuration Management
18. Pension Solution – Pre-Implementation

Cross-Branch:

19. Third-Party Data Sharing and Security
20. Code of Ethics and Business Conduct Compliance

## **OTHER AUDIT SERVICES ACTIVITIES**

### **Global Internal Audit Standards (GIAS) Adoption**

*Analyze the prior and new audit standards for gaps; review and update Audit Services governance documents; develop and apply strategies and plans to comply with GIAS; update Audit Services Quality Assurance and Improvement Program.*

### **Appeals**

*Prepare material for administrative hearings and act as subject matter witness in audit appeals.*

### **ARM Committee and Management Requests**

*Respond to ARM Committee and management requests for audit services.*

### **External Financial Statement Audit Coordination and Follow Up**

*Coordination of the financial statement audit and report on any management action in response to the financial statement audit.*

### **Internal Audit and Contracted Audit Follow Up**

*Follow up on internal audit and contracted audit management actions.*

### **Pension Solution**

*Participate in the Pension Solution work group as Subject Matter Experts.*

### **Special Projects**

*Respond to special internal and employer audit requests.*

### **Audit Software (TeamMate) Champion**

*Serve as subject matter expert for TeamMate functionality and issues.*

### **Board Document Development**

*Perform analytics, design, and review of Board agenda items.*

### **Continuing Professional Education & Training**

*Obtain 40 required hours of continuing professional education per year.*

### **Legislative Analysis & Review**

*Participate on CalSTRS' legislation team and provide consultation and analysis on pending legislation.*

### **Quality Assurance Improvement Program**

*Continue to conduct a Quality Improvement Program and implement initiatives to ensure conformity with the Standards and leading practices.*

#### Risk Assessment & Audit Plan

*Perform annual/continuous risk assessment for developing/updating the annual audit plan.*

#### Business Intelligence / Data Warehouse

*Understand data and identify opportunities for utilization of data analytics.*

### **MANAGEMENT & ADMINISTRATION**

#### Administrative Support

*Provide administrative support services (budget, contracts, personnel, Board documentation, report distribution, training coordination, etc.).*

#### Audit Staff Recruitment and Development

*Staff recruitment and on the job training.*

#### Enterprise-wide Cross Organizational Projects

*Supports organizational projects in an advisory capacity.*

#### Management & Supervision

*Management and supervision of employer and internal audit functions and personnel.*

### **AUDIT PLAN PROGRESS**

Interim changes to the Audit Services audit plan will occur from time to time due to changes in business risks, timing of CalSTRS' initiatives, and staff availability. Audit Services will report on the audit plan and progress against the plan to executive management and the ARM Committee. Amendments to the approved plan deemed to be significant (based on discussions with the executive staff and Committee chair) will be submitted to the ARM Committee for approval in advance.

### **AUDIT SERVICES MISSION**

Audit Services' mission is to enhance and protect organizational value by providing independent, risk-based, and objective assurance, advice, insight, and foresight. Audit Services performs assurance and advisory service designed to add value and improve an organizations' operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. Audit Services assists CalSTRS with:

- The successful achievement of its objectives.
- Effective implementation of governance, risk management and control processes.
- Improved decision-making and oversight.
- Increased reputation and credibility with its stakeholders.
- The ability to serve the public interest.

Audit Services also contributes to CalSTRS overall stability and sustainability by providing assurance on its operational efficiency, reliability of reporting, compliance with laws and/or regulations and the broader systems of which it is a part.

To effectively accomplish its mission, Audit Services is:

- Staffed with competent professionals in conformance with the Standards, which are set in the public interest.
- Independently positioned with direct accountability to the Teachers Retirement Board through the ARM Committee.
- Free from undue influence and committed to making objective assessment.

### **AUDIT ORGANIZATION AND CHARTER**

Audit Services is independent of management and provides objective assurance and advisory services designed to add value towards achieving CalSTRS' strategic goals and enhance operational efficiency and effectiveness. To maintain independence and objectivity, the chief auditor functionally reports to the ARM Committee and administratively to the Chief Operating Officer.

The Audit Services Charter (Charter) authorizes Audit Services to perform assurance and advisory services of CalSTRS' governance, risk, and controls. Additionally, Audit Services conducts reviews of school districts, county offices of education, and any employer that has employees who may perform creditable service subject to the Teachers' Retirement Law. The Charter also defines the internal audit function's purpose of internal auditing, commitment to adherence to the Standards, internal audit mandate, organization position, and reporting relationships.

### **ACCEPTABLE LEVEL OF RISK**

Management is responsible for determining an acceptable level of risk. If the chief auditor determines management has accepted a level of risk that may be unacceptable to the organization, the chief auditor must discuss the matter with senior management. If the decision regarding the matter has not been resolved, the chief auditor must communicate the matter to the ARM Committee.

### **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

In conformance with the Standards, the chief auditor must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes internal and external assessments. At least annually, the chief auditor must communicate the results of the internal quality assessment to the ARM Committee. In addition, the results of the external quality assessment must be reported when completed. The last external

quality assurance assessment of Audit Services was performed in 2021. The Audit Services audit plan provides a provision for conducting an annual internal quality assessment review.

## **FOLLOW-UP**

The Standards require Audit Services confirm that management has implemented management action plans following an established methodology. The audit plan includes time necessary to determine resolution status on previous audit findings.

## **COMPETENCY AND CONTINUING PROFESSIONAL DEVELOPMENT**

The Standards require that the internal audit function collectively possess the competencies to perform internal audit services. Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. Audit Services staff have multiple certifications and/or licenses demonstrating applicable competencies. Additionally, Audit Services staff are required to obtain Continuing Professional Education (CPE) each year to maintain certifications and /or licenses and remain up to date on professional knowledge and practices. CPE hours provide the Audit Services staff with new and/or updated skills for performing audits.

Audit Services staff are members of several professional auditing and accounting organizations. These groups are excellent sources for obtaining information on auditing, accounting, business management, and other professional issues and concerns. The Audit Services audit plan anticipates staff obtaining required CPE and training provided by the relevant professional organizations such as those listed below:

- Association of Public Pension Fund Auditors (APPFA)
- Public Pension Financial Forum (P2F2)
- Institute of Internal Auditors (IIA)
- American Institute of Certified Public Accountants (AICPA)
- Association of Government Accountants (AGA)
- Information Systems Audit and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)
- California Association of State Auditors (CASA)