

Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

A. GENERAL INFORMATION

1. Date

03/15/16

2. Department

California State Teachers' Retirement System

3. Organizational Placement (Division/Branch/Office Name)

Financial Services Branch/Financial, Accounting and Reporting

4. CEA Position Title

Director of Financial Planning, Accounting, & Reporting

5. Summary of proposed position description and how it relates to the program's mission or purpose. (2-3 sentences)

Under the general direction of the Chief Financial Officer, the Director of Financial Planning, Accounting, & Reporting is responsible for the leadership and management of three distinct functions supporting the California State Teachers' Retirement System (CalSTRS): 1) Cash and Investment Accounting, 2) General Ledger Reporting and Non-Pension Reserves, and 3) Budgets and Cost Accounting. The CEA is responsible for developing the strategies and road map to enhance the financial reporting and budgeting operations, designing the strategic management plan for policy development and application, addressing external audit findings related to year-end financial statements, and making the final decisions on financial and budgeting policies and processes that have CalSTRS-wide impact. As a member of the Financial Services Branch Leadership Team, serves as a expert consultant to the CFO, Executive Staff, the Teachers' Retirement Board (TRB) and its Audits and Risk Management Committee (ARM Committee).

6. Reports to: (Class Title/Level)

Chief Financial Officer, CEA C

7. Relationship with Department Director (Select one)

- Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
- Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.

(Explain): As a member of the Financial Services Branch Leadership Team, serves as a expert consultant to the CFO, Executive Staff and Teachers' Retirement Board.

8. Organizational Level (Select one)

- 1st
- 2nd
- 3rd
- 4th
- 5th (mega departments only - 17,001+ allocated positions)

B. SUMMARY OF REQUEST

9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

Under the general direction of the Chief Financial Officer, the Director of Financial, Accounting, & Reporting is responsible for the leadership and management of three distinct functions: 1) Cash and Investment Accounting, 2) General Ledger Reporting and Non-Pension Reserves, and 3) Budgets and Cost Accounting. The incumbent is responsible for developing strategies and road map to enhance the financial reporting and budgeting operations, designing the strategic management plan for policy development and application, addressing external audit findings related to year-end financial statements, and making the final decisions on financial and budgeting policies and processes that have CalSTRS-wide impact. As a member of the Financial Services Branch Leadership Team, serves as a expert consultant to the CFO, Executive Staff, the Teachers' Retirement Board and its Audits and Risk Management Committee.

- Act as an in-house financial and budgeting technical expert, and provide accounting research, advice, and consultation on financial accounting and budgeting to the Executive staff and CalSTRS directors in various organizational areas. Direct the formulation and modification of cross-functional policies (example: CalSTRS budget and cost accounting policy) and CalSTRS' financial policies that would include personnel from Actuarial Valuation, CalSTRS Complex Securities Group, Investment Branch, BD System Support, Department of Finance, State Treasury Office, banking institutions, CalSTRS' master custodian, and Governmental Accounting Standards Board (GASB) advisers. Lead various complex efforts, such as: survey the external and internal environment for factors influencing policies and best practices; research and analyze GASB and FASB (Financial Accounting Standards Board) standards, pronouncements, technical bulletins, and white papers to ensure appropriate accounting positions for setting policy; and analyze approaches and methodologies for allocating expenses, investment assets and gains/losses to various pension plans, funds, and programs for policy establishment.

-Participate in the GASB standard setting process that includes reviewing and commenting on invitation to comment requests and exposure drafts of GASB standards (e.g.,: GASB statements 67 and 68 on pension reporting, and GASB on investment fair value measurement) in order to affect the state-wide pension and investment accounting requirements. Together with the CalSTRS CFO and the Actuary Officer testify in GASB public hearings on complex accounting issues of vital importance to CalSTRS and its constituents which have impacts on the treatment of investment value in the financial statements, actuarial liabilities, program funding consideration, and financial position for CalSTRS. Develop policies for compliance with GASB standards and execute the implementation of policies. Prepare explanatory information of accounting policy changes and their impact on CalSTRS to Executive staff, Divisional Directors, Accounting staff, and other interested groups.

-Plan, organize, direct, and monitor the large-scale and highly complex operations of the investment accounting, cash receipt management, financial reporting, budget and forecasting, and cost accounting design and cost distribution. Provide general direction to each area. Set functional goals, establish performance metrics, and create action plans for ongoing work, targeted initiatives, and research and development activities. Direct both long and short range planning for the Division and managing the planning for, and implementation of the initiatives adopted. Represent CalSTRS in meetings with external entities such as external auditors, State of California Control agencies, private business entities (such as banks, asset custodians, and management consultants) and professional organizations like the California Association of Public Retirement Systems).

-Direct the preparation of quarterly and annual comprehensive financial statements based on both Generally Accepted Accounting Principles (GAAP) and legal requirements. Direct the preparation of Comprehensive Annual Financial Report (CAFR) for submission to Government Financial Officers Association (GFOA) for certificate of financial reporting excellence. Coordinate CalSTRS interaction with external auditors engaged to provide an opinion on the fairness of the annual GAAP reports, management discussion and analysis, and footnote disclosures. Monitor the internal controls over financial reporting to ensure financial transactions are properly recorded and reported in the financial statements. Prepare and present financial reports to the ARM Committee with the CalSTRS CFO. Direct the preparation of budget proposals and budget change requests. Direct the analysis of budget allocation by using activity based costs, cost allocation methodologies (fixed and variables), and cost measurement and effectiveness analysis. Communicate and advise CalSTRS management on budget and cost controls for compliance.

-As a member of Senior Leadership, participate on CalSTRS-wide projects (example: the multi-year pension administration system project) and participate in cross-functional management teams to ensure that the financial accounting policy, compilation, and reporting aspects of program changes will be understood and accommodated. Perform as the Business Process Architect (BPA) lead for the high-profile enterprise system projects to lead the efforts of the business process development to ensure the effective use of financial data and information in the system. Collaborate with the Accounting Director in providing information on accounting policies, projects, and other initiatives to the Executive staff, the Enterprise Program Investment Council, CalSTRS Leadership Team, and other interested groups. Act on behalf of (as delegated) and serve in the absence of the Chief Financial Officer.

B. SUMMARY OF REQUEST (continued)

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

- Program is directly related to department's primary mission and is critical to achieving the department's goals.
- Program is indirectly related to department's primary mission.
- Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

Description: This position is directly related to CalSTRS mission to secure the financial future and sustain the trust of California's educators. CalSTRS is the largest educator-only pension fund in the world with net assets of over \$192 billion (as of June 30, 2015). CalSTRS administers a hybrid retirement system, consisting of traditional defined benefit, cash balance and voluntary defined contribution plans, as well as disability and survivor benefits. For over 100 years, CalSTRS has served California's public educators and their families who today number over 879,000 from the states 1,700 school districts, county offices of education and community college districts. The Financial Planning, Accounting, & Reporting Division ensures adequate accounting controls over the \$192 billion in net assets; the annual revenue in FY 2014/15 of more than \$14.4 billion and the \$284 million operating budget, and directs the preparation of quarterly and annual comprehensive financial statements. These critical functions support the prompt delivery of \$12.5 billion annually in benefit payments to CalSTRS' members and beneficiaries.

B. SUMMARY OF REQUEST (continued)

11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.

The request to allocate this position as CEA is in response to the complex political, regulatory and economic issues faced by CalSTRS in fulfilling its mission to secure the financial future and sustain the trust of California's educators. In recent years the magnitude, scope and political sensitivity of the issues facing CalSTRS have grown significantly. Today's uncertain economy, fast-changing investment climate, dynamic and interlinked global market, potential pension reform, and legislative mandates constantly challenge CalSTRS staff to achieve maximum program performance. CalSTRS fiduciary and investor roles makes it highly visible in the media and continually place it under intense scrutiny from the public, teachers, legislative representatives and other governmental and regulatory bodies at local, state, federal and global levels. The financial and operational risks continue to heighten with the volatility of economic, political and market conditions and are of significant concern to the TRB. Over the past several years, financial and investment transactions of public pension funds have more complicated regulatory and accounting standard requirements associated with them and the responsibility to understand those transactions has increased significantly. The ongoing debate over public retirement has intensified with the volatility of financial markets and demand a greater understanding of the political and social environment in which public pension plans operate. Because of the high-profile, political nature of unfunded pension liability issues, CalSTRS is on the radar of the Legislature and statewide media outlets. In the last few years, the Governmental Accounting Standards Board (GASB), and the Securities and Exchange Commission (SEC) have tightened the rules and regulations on investment compliance, operational controls, transparency of financial reporting and accounting requirements. Highlighted changes that affect CalSTRS are:

- The increased focus by the SEC, IRS, and the media on the transparency, equitability and tax implications of fees associated with private assets (i.e. carried interest)
- The increased scrutiny of public pensions by Internal Revenue Service (IRS) in an effort to ensure the public pensions are compliant with tax qualification requirements and have the control operations to prevent risk of retirement benefits default that subsequently would cause a burden to government as a whole.
- New auditing requirements that emphasize risk controls to prevent error, fraud, and misstatement of financial statements. The new auditing standards heighten the requirements of risk assessment and mitigation of CalSTRS' operations and financial reporting.
- The increased complexity of contributions due to CalSTRS from members, employers and the state due to the implementation of PEPRA and AB 1469 and the associated accounting controls required to validate the accuracy and completeness of contributions due.
- The increased focus on the impact of actuarial valuations and other studies on CalSTRS programs and the associated importance of cash management and program allocation functions within Financial Accounting to support these valuations and studies.
- GASB changes to accounting for pensions by state and local governmental employers. The accounting standards, GASB Statement 67, Financial Reporting for Pension Plans, and Statement 68, Accounting and Financial Reporting for Pensions, took effect for CalSTRS in FY 2013-14 and brought about significant changes in financial reporting requirements. Reporting for plan employers (school districts) took effect FY 2014-15. GASB statement 72 is effective for FY 2015-16. This standard addresses fair valuing investments and disclosing the level of inputs used in establishing fair value. GASB 74 and 75 are effective for CalSTRS in FY 2016-17 and for CalSTRS employers in FY 2017-18 and relate to accounting and financial reporting for other post-employment benefits. The changes required CalSTRS to make additional financial note disclosures, additional actuarial calculations and new reporting schedules.
- The transfer of CalSTRS Budget and Cost Accounting functions into the Financial Planning, Accounting and Reporting Division. The budget functions include the budget development process for CalSTRS administrative and investment related activities, preparation of budget change proposals, schedules and budgetary reports for the DOF and the legislature and allocation of CalSTRS budgetary resources.
- CalSTRS internal management asset plan currently underway to bring externally managed investment strategies in house and steadily increase the internal management of assets, currently at 38% to 60%. This has increased the need for high degrees of expertise to manage and oversee investment accounting.
- The implementation and ongoing enhancement of CalSTRS BusinessRenew efforts including Business Direct (enterprise resource planning system) and Pension Solution (replacement of CalSTRS pension administration system). Due to these efforts, accounting policies and processes need to be carefully planned, designed and implemented in business processes and through technology.

C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

The increased importance of financial reporting and financial information to the TRB, Executive staff and users of the financial statements (e.g., members, Wall Street analysts, the legislature and the public), as well as emphasis on management's responsibility from the Sarbanes-Oxley Act and appropriate application of ongoing new accounting standards compel the incumbent to develop new accounting policies, improve internal controls, mitigate risks and manage ongoing changes in operations and compliance. The Director of Financial Planning, Accounting, & Reporting is responsible for developing and implementing CalSTRS' policies for financial reporting, cash management, CalSTRS department-wide budget, and cost accounting. As the complexity and significance of CalSTRS' investment portfolio has increased tremendously, the incumbent must oversee the constant formulation of investment accounting policies for new investment types and activities to ensure accounting treatment and reporting compliance in the financial statements, reports and note disclosures. The incumbent establishes budgetary policy covering the budgetary development process, including the preparation of budget change proposals, schedules, and budgetary reports; the allocation of the CalSTRS budgetary resources and the financial review of those resources; the preparation of fiscal information for the Legislative Analyst's Office, the DOF, and the Legislature; and approving revenue and expenditure objectives in accordance with the Board approved long-term plans.

The CEA is responsible for the following policies:

- Commitment of Budgeted Funds Policy
- Funding Sources for Budgeted Expenses Policy
- New Fiscal Year Spending Policy
- Additional Funding Policy
- Responsibilities for Using a Decentralized Budgeting System Policy
- Establishment of Annual Budget Policy
- Chart of Accounts Policy
- Closing Period Policies
- GAAP, Budgetary & Legal Basis Accounting Structure Policy
- GAAP/Legal Basis/Budgetary Reporting Structure and Relationship Policy
- Actuarial Valuation – GAAP Basis Policy
- Capitalization Policy
- Post-Financial Adjustment Policy
- Proportionate Share of Contribution Allocation Policy (GASB 67)
- Administrative Expenses Allocation Policy
- Income Allocation – Supplemental Benefit Maintenance Account (SBMA) Policy
- Indirect Cost Allocation Policy
- Cost Accounting Policy
- Program Accounting Policy
- Program Lending and Borrowing Activities Policy
- Investment Accounting and Fair Value & Measurement Policies

C. ROLE IN POLICY INFLUENCE (continued)

13. What is the CEA position's scope and nature of decision-making authority?

CalSTRS is unlike nearly all of the other California State entities that rely on the State Treasurer (STO), State Controller (SCO), Department of General Services (DGS), and the Department of Finance (DOF) to provide control and administrative functions, rather under statute, the TRB has exclusive control of the administration, investment, and safeguarding of the System's assets. CalSTRS operates primarily apart from these control functions and is under the oversight of the TRB. The Director of Financial Planning, Accounting and Reporting is responsible for the leadership of the division and leads efforts to establish policies and processes for cash and investment accounting, general ledger reporting and non-pension reserves, budgets and cost accounting. The incumbent is responsible for developing strategies and the road map to enhance the financial reporting and budgeting operations and to create an effective financial management team at CalSTRS. The incumbent designs the strategic management plan for policy development and application, addresses external audit findings related to quarterly and year-end financial statements, and makes final decisions on financial policies that have enterprise-wide impact. The Director of Financial Planning, Accounting, & Reporting, is responsible for cross-functional policy formulation and modification of CalSTRS' financial policies that include personnel from Actuarial Valuation, CalSTRS Complex Securities Group (a cross-functional team between the Financial Planning, Accounting and Reporting Division and the Investments Branch established to review new types of securities, including how they will be processed, fair valued, and their resulting impact to accounting and financial reporting), CalSTRS' Investments Branch, CalSTRS' BusinessDirect System Support, Department of Finance, State Treasury Office, banking institutions, State Street Bank (custodial bank), and GASB. Due to the complex and technical nature of the annual financial statements, the Director of Financial Planning, Accounting and Reporting prepares and presents financial reports to the Audit and Risks Management (ARM) Committee with the CalSTRS CFO. The Director of Financial Planning, Accounting, & Reporting is responsible for recording and reporting all CalSTRS financial activities. CalSTRS prepares a comprehensive annual financial report that includes the reports of an independent auditor, investment benchmarking consultant, and independent actuary. Unlike most other State of California executive branch entities, CalSTRS financial reporting uses a full accrual method and must be in compliance with Generally Accepted Accounting Principles (GAAP), GASB and Financial Accounting Standards Board (FASB) requirements and guidelines, state and federal tax code (IRC) and SEC requirements, in addition to the Teachers' Retirement Law and other legal mandates.

14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?

Each year CalSTRS conducts environmental scan activities including assessing CalSTRS strengths, weaknesses, opportunities, and threats (SWOT), potential legislative changes, and current and future projects that impact the system's long-term sustainability. Each year, the TRB is presented with an analysis of the organization's strengths and weaknesses of the internal organization as well as the external opportunities and threats that might impact CalSTRS in a positive or negative way. The CEA will formulate and direct the development of new or revised policies and strategies based on this analysis. Additionally, each year CalSTRS business plan is fine-tuned to represent the focus of the organization allowing CalSTRS to continually assess the changing environment including regulatory changes, operational risks, financial market risks and the changing needs of CalSTRS members. The CEA will formulate and direct the development of new or revised policies and strategies based on these ongoing changes to ensure CalSTRS continued commitment to its mission of securing the financial future and sustaining the trust of California's educators.