



Risk and Audit Committee Agenda Item 6c

February 17, 2021

Item Name: Quarterly Status Report – Office of Audit Services

Program: Audit Services

Item Type: Information Consent

Executive Summary

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the Office of Audit Services (OFAS) presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of September 30, 2020.

Strategic Plan

This item is not a specific product of the Strategic Plan, but is required by the Board of Administration (Board) approved Audit Resolution Policy and OFAS Charter.

Background

On a quarterly basis, OFAS updates the Risk and Audit Committee (RAC) on audit activity and audit resolution status.

Analysis

Employer Compliance Reviews

During the first quarter, 64 reviews were in progress.

The Employer Account Management Division reported 62 observations were resolved, leaving 172 observations open as of September 30, 2020. In addition, OFAS validated 74 resolved findings during the quarter. Please refer to Attachments 1 and 2 for additional information on the employer observations.

Internal Audits

During the first quarter, four internal audits were issued with a total of eight observations in operational areas, such as improving or establishing monitoring processes and documenting or updating processes and procedures. Please see Attachment 1 for additional information on internal audit observations.

As of September 30, 2020, there were no unresolved internal audit observations over one-year-old, continuing the enterprise's compliance with the Board approved Audit Resolution Policy. During the quarter, eight observations were resolved, leaving 32 observations open.

Financial Statement Audit Report and Management Letter

The management letter prepared by BDO USA, LLP for the fiscal year ended June 30, 2020, was presented during the November 17, 2020 RAC. The observation in the Management Letter will be reported to RAC until its fully resolved. The summarized status of the current year observation is in Attachment 3.

Year-End Information

OFAS Education and Experience

Standards 1210 requires the internal audit activity to collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. OFAS staff possesses proficiency in many areas: internal controls, employer compliance, risk assessment, financial audits, health programs, information technology systems, information technology security, investments, and benefits administration. In addition, staff exhibit a high level of education, complemented with many years of CalPERS and total audit experience, as shown below in Tables 1 through 3.

Table 1 – OFAS Audit Experience

Total OFAS Experience (Years)	Staff
Up to Three	22
Three to Five	10
Six to Ten	10
More than 10	8

Table 2 – Total Years of Audit Experience

Total Years of Audit Experience (Years)	Staff
Up to Three	9
Three to Five	5
Six to Ten	18
More than 10	18

Table 3 – Highest Level of Education

Highest Level of Education	Degrees
Bachelor of Arts / Science	49
Masters	12

Certifications

OFAS staff hold a wide variety of professional certifications, as shown below in Table 4.

Table 4 – Professional Certifications

Certification	No. of Staff
Certified Public Accountant	6
Certified Internal Auditor	5
Certified Information Systems Auditor	4
Certified Fraud Examiner	4
Certified Investments and Derivatives Auditor	1
Certified Government Auditing Professional	1
Certification in Risk Management Assurance	<u>1</u>
Total Certifications	22

Quality Assurance and Improvement Program

Standards 1320 requires the Chief Auditor to communicate the results of the Quality Assurance and Improvement Program (QAIP) to senior management and the Board. As part of QAIP, OFAS performs internal assessments of the internal audit activity through ongoing reviews and periodic self-assessments. We concluded that OFAS generally conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards. We identified areas for improvement, including tracking budgeted to actual hours and maintaining documentation relating to declined final exit meetings as areas to target for improvement in the Fiscal Year 2020-21. In addition to our internal assessments of the internal audit activity, an external peer review is performed every five years. The next external peer review will be conducted in 2021.

Furthermore, as part of our QAIP, OFAS sends a customer satisfaction survey at the conclusion of internal audits and employer compliance reviews. The survey questions focus on the audit process and report, overall value, and communication. For Fiscal Year 2019-20, the return response from internal management and employers was 21 and 19 percent, respectively. The results of the survey indicate internal management and employers' overall responses to the questions were positive. From the suggestions provided, we have identified improve communications regarding the audit process and results as an area we plan to target for improvement in the Fiscal Year 2020-21.

Definition of Internal Auditing, the Code of Ethics, and the *Standards*

Standards 1010 requires the Chief Auditor to discuss the Mission of Internal Auditing and the mandatory elements of the International Professional Practices Framework with senior management and the Board. The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Core Principles, taken as a whole, articulate internal audit effectiveness. The definition of internal auditing states that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process. The Code of Ethics states the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities. The Standards are a set of principles-based, mandatory requirements to provide a framework for performing and promoting internal auditing.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The Quarterly Status Report of audit activity provides periodic reporting to the Board regarding performance relative to the audit plan and other matters needed or requested. The periodic reporting of this information to the Board is in accordance with the Standards, the Board approved Audit Resolution Policy, and OFAS Charter. The risk of not reporting periodically is non-compliance with the Standards.

Attachments

Attachment 1 – Status of Audit Observations Dashboard

Attachment 2 – Employer Compliance Review - Open Observations Over 1 Year

Attachment 3 – Summary of Financial Statement Audit Management Letter Comments, Current Year Report

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