



Risk and Audit Committee

Agenda Item 5c

April 18, 2022

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 December 31, 2021.

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 second quarter, OFAS completed 61 reviews with a total of 109 observations. Currently, 120 reviews are in progress.

The Employer Account Management Division (EAMD) and Health Account Management Division (HAMD) reported 32 observations were resolved, leaving 162 observations open as of December 31, 2021. In addition, OFAS validated 32 resolved observations during the quarter. Please refer to Attachments 1 and 2 for additional information on employer compliance observations.

Internal Audits

During the second quarter six reports were issued in the quarter with eight observations in operational areas such as incorrect reporting, maintaining documentation, timely notifications, and maintaining an updated authorization list. Please see Attachment 1 for additional information on internal audit observations.

As of December 31, 2021, there were three unresolved internal audit observations aged over one year old related to internal audit job numbers IA18-032, IA18-035, IA19-006. The divisions provided corrective action plans, and currently, the observations have been resolved. During the second quarter, 13 observations were resolved, leaving 11 observations open.

Financial Statement Audit Report and Management Letter

The management letter prepared by BDO USA, LLP for the fiscal year ended June 30, 2021, was presented during the November 16, 2021, RAC. The observations in the Management Letter will be reported to RAC until its fully resolved. The summarized status of the current year observations is in Attachment 3.

Status of Audit Plan

The Fiscal Year 2021-22 Board Approved Audit Plan is in progress. As required by the Standards, we review and adjust the audit plan, as necessary, in response to changes in the organization's business, roles, operations, programs, systems, and controls.

External Assessment

Standard 1312 requires an external assessment of the internal audit activity to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. OFAS engaged the Department of Finance (DOF) to perform the external peer review.

Standards 1320 requires the Chief Auditor to communicate the external assessment results to senior management and the Board. Based on the results of the external review dated December 17, 2021, it is DOF's opinion that OFAS's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with the Standards for assurance and consulting engagements during the period of July 1, 2016 through June 30, 2021. There were no recommendations for improving OFAS' internal audit function.

Additionally, DOF noted the following successful practices and noteworthy accomplishments:

- Used risk-based planning for developing the annual audit plan and preparing each engagement's audit program.
- Developed and implemented a Quality Assurance and Improvement Program that includes performing periodic internal quality assessments and completing external assessments every five years to comply with IIA standards and enhance audit quality.
- Developed and maintained a comprehensive OFAS Audit Manual.
- Established and maintained an approved OFAS Audit Charter.

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 old

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

Attachment 4 – CalPERS Quality Assurance Review

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