



Risk and Audit Committee

Agenda Item 4c

September 19, 2023

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 March 31, 2023.

Strategic Plan

This item is not a specific product of the Strategic Plan but is required by OFAS' Audit Resolution Policy and 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 third quarter, OFAS completed 40 reviews with a total of 53 observations, and 59 reviews were in progress.

The Employer Account Management Division (EAMD) and Health Account Management Division (HAMD) reported 135 observations were resolved, of which four were aged one to two years and 131 were aged less than one year. This leaves 211 observations open as of March 31, 2023, of which 39 were aged one to two years, and 172 were aged less than one year. In addition, OFAS validated 107 resolved observations during the quarter. Please refer to Attachment 1 for additional information on employer compliance observations.

Internal Audits

During the third quarter, OFAS completed four internal audits with five observations. The observations were in operational areas relating to the security controls and testing for Member Self Service, review and approval of disability retirement determinations, ensuring proper

separation of duties following rule changes in portfolio management software, and compliance with internal procedures for approving and reviewing contract build and close out checklists.

As of March 31, 2023, there were no unresolved internal audit observations over one year old. During the quarter, four observations were resolved, leaving eight observations open.

Status of Audit Plan

The Fiscal Year 2022-23 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.

Financial Statement Audit Report and Management Letter

The management letter prepared by BDO USA, LLP for the fiscal year ended June 30, 2022, was presented during the November 15, 2022 RAC meeting. FRAS reported the observation was resolved during the February 16, 2023 RAC meeting. The observation in the Management Letter will be reported to RAC until it is reviewed and validated by the financial statement auditor. The summarized status of the current year observation is in Attachment 2.

Quality Assurance and Improvement Program (QAIP)

QAIP Periodic Assessment 2021-22

Standard 1320 requires the Chief Auditor to communicate the Quality Assurance and Improvement Program (QAIP) results 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. Our QAIP Review for Fiscal Year 2021-22 concluded that OFAS generally conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards. The periodic assessment team also identified the following opportunities for improvement:

- Standard 1100 recommends that the Chief Auditor reports administratively to the CEO, both so that the Chief Auditor is clearly in a senior position and that internal audit is not positioned within an operation subject to audit. Currently, the Chief Auditor reports administratively to the General Counsel, who oversees the Information Security Office, Enterprise Compliance, and Enterprise Risk Management Divisions. The periodic assessment team recommended that the Chief Auditor engage with the Board to seek a revision in reporting relationship to better align with the recommended structure described in the Standards.
- Standards 1300, 1311, and 1320 state that the Chief Auditor must develop and maintain a QAIP that covers all aspects of the internal audit activity, which includes external assessments every five years by a qualified, independent assessor or assessment team from outside of the organization. The Chief Auditor must discuss with the Board the form and frequency of external assessments and the qualifications and independence of the external assessor or assessment. The period assessment team recommended that OFAS develop a formal process when selecting external assessors, including vetting their qualifications and independence and obtaining Board feedback before the final selection.
- Standard 2030 states that the Chief Auditor must ensure internal audit resources and appropriate, sufficient, and effectively deployed to achieve the approved audit plan. The periodic assessment team noted that, due to a high vacancy rate, the internal audit

resources were not sufficient to complete the planned audits. The periodic assessment team recommended that OFAS develop a process for prioritizing audits on the audit plan and consider obtaining external resources to complete the audit plan to cover high-priority audits, if necessary.¹

- Standard 2230 requires the internal auditor to determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. The periodic assessment team recommended that OFAS enhance managers' awareness of the need to reevaluate the budgeting process and/or scope of the projects to improve planning and ensure allocated resources are consistent with planned reviews. The periodic assessment team also recommended that OFAS develop a process to ensure audit teams consistently document the reasons for project overruns.

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

Standard 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 the 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.

OFAS Education and Experience June 2022

Standard 1210 requires the internal audit activity to collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. OFAS staff has 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, the staff exhibit a high level of education and many years of total audit experience, as shown on the next page in Tables 1 and 2.

¹ In June 2023, OFAS reviewed and adjusted its Board Approved Audit plan to prioritize the audits based on changes in business risks and OFAS's high vacancy rates. OFAS is also in the process of contracting with an external audit firm to cover high priority audits as necessary.

Table 1 – Total Years of Audit Experience

Total Years of Audit Experience (Years)	Staff
Up to Three	3
Three to Five	8
Six to Ten	14
More than 10	18

Table 2 – Highest Level of Education

Highest Level of Education	Degrees
Bachelor of Arts / Science	43
Masters	12

Certifications

OFAS staff hold a wide variety of professional certifications, as shown below in Table 3.

Table 3 – Professional Certifications

Certification	No. of Staff
Certified Public Accountant	8
Certified Internal Auditor	6
Certified Information Systems Auditor	5
Certified Fraud Examiner	2
Certified Investments and Derivatives Auditor	1
Certified Government Auditing Professional	<u>1</u>
Total Certifications	23

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, OFAS’ Audit Resolution Policy, and OFAS’ Charter. The risk of not reporting periodically is non-compliance with the Standards.

Attachments

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

Attachment 2 – Summary of Financial Statement Audit Management Letter Comments Current Year Report

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