



Agenda Item 6a

May 15, 2012

ITEM NAME: Annual Audit Plan

PROGRAM: Audit Services

ITEM TYPE: Action

RECOMMENDATION

Approve the proposed Audit Plan for fiscal year 2012-13.

EXECUTIVE SUMMARY

Each year, the Office of Audit Services presents to the Risk & Audit Committee a proposed audit plan for the Committee's review and recommendation to the Board of Administration. Our proposed audit plan for Fiscal Year 2012-13 is appended to this agenda item as Attachment 1.

BACKGROUND

The Office of Audit Services completed an annual risk assessment for the purpose of developing our annual audit plan, as required by the International Standards for the Professional Practice of Internal Auditing. The Standards require us to develop a risk-based plan to determine the priorities of the internal audit activity consistent with the organization's goals. As part of this process, we analyze both internal and external risks and use this information to effectively allocate audit resources to address critical risk areas as well as to perform mandated audits. To remain flexible and responsive to changing conditions, ensure Office of Audit Services' support of key enterprise objectives, and respond to management or Board priorities, proposed modifications to the audit plan, if any, may be brought forward to the Risk & Audit Committee during the fiscal year.

ANALYSIS

The risk assessment process includes two major components consisting of the Contracting Public Agencies reviews and Internal audits. The Office of Audit Services performs membership, payroll, and health enrollment reviews of contracting public agencies including cities, counties, special purpose districts, schools, district agricultural associations, the California State University system and state agencies. These reviews focus specifically on compensation reporting, member enrollment, payroll reporting elements, reporting unused sick leave for additional service credit, and employment of retired annuitants. We also review members' health enrollment documentation.

To identify and prioritize contracting public agencies for review, we apply risk assessment factors such as agency size, type, safety coverage, if an agency is super funded, highly paid employees, high levels of special compensation, chartered cities, and whether the agency has amended its contract to provide additional service credit for unused sick leave. We then prioritize each entity in low, medium, or high categories of risk scores to determine the best use of staff resources. We also plan to review agencies that may be assessed as medium or low risk in response to special requests from management or tips received from the public, as well as periodic randomly selected agencies.

We anticipate leveraging information from my|CalPERS in the coming year to analyze and identify agencies with specific areas of risk such as large spikes in compensation; special compensation, classification, or dependent eligibility anomalies; or other issues that may arise during the fiscal year. We believe this approach will broaden our ability to allocate our resources to the most critical areas while providing the Office of Audit Services the opportunity to timely evaluate and inform a greater number of public agencies about the rules, policies, regulations, and laws that govern the program. We estimate completing 47 reviews and 12 limited scope reviews in Fiscal Year 2012-13.

Internal audits performs assurance and consulting work, consistent with the International Standards for the Professional Practice of Internal Auditing. Internal audits addresses areas including retirement, health, investments, information technology, fiscal, operations support, and other internal areas. Internal audits evaluates the adequacy and effectiveness of CalPERS governance, risk management and internal control processes to achieve the stated goals and objectives.

The internal audit plan is developed based on a prioritization of all auditable units using a risk-based methodology, including seeking input of senior management and the Board. This methodology includes considering risk factors based on criteria that include: assessed adequacy and effectiveness of programmed controls, character and complexity of the business activity and its underlying systems, the application information, results and time of previous audits, and degree of changes in operations. We also leverage existing risk assessment information and analysis prepared by the Enterprise Risk Management Division and map this information to our existing audit universe.

BENEFITS/RISKS

The proposed audit plan will set the direction and priorities of the internal audit activities for the next fiscal year, consistent with the organization's goals. Approval of this audit plan is expected to result in compliance with the Standards while providing senior management and the Board a higher level of assurance that controls are working as intended. Failure to approve the audit plan will result in non-compliance with Standards and reduced levels of assurance.

ATTACHMENT

Attachment 1 – Proposed Audit Plan for fiscal year 2012-13

MARGARET JUNKER, Chief
Office of Audit Services

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