



Consent

Agenda Item 4d

August 14, 2012

ITEM NAME: Office of Audit Services Quarterly and Year-end Status Report

PROGRAM: Audit Services

ITEM TYPE: Consent Information

EXECUTIVE SUMMARY

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of June 30, 2012.

BACKGROUND

On a quarterly basis, the Office of Audit Services updates the Risk and Audit Committee on audit activity and audit resolution.

ANALYSIS

During the fourth quarter, 15 public agency reviews were completed with a total of 121 findings. Of the 121 findings, 33 percent were compensation findings, such as not reporting compensation earnable and erroneously reporting compensation that was not reportable. During the quarter, 57 findings were resolved, leaving 309 still open as of June 30, 2012. Detail on all public agency findings is available on file in the Office of Audit Services, upon request. Please see Attachment 1 for additional information on public agency findings. The table below shows the aging trend of all open public agency findings as of June 30, 2012.

Table 1 – Percentage trend of unresolved findings

Fiscal Year	Total Findings	At the End of the First Fiscal Year (Year Report was Issued)	At the End of the Second Fiscal Year	At the End of the Third Fiscal Year
2006-07	243	47%	25%	4%
2007-08	328	41%	9%	1%
2008-09	457	28%	8%	1%
2009-10	455	40%	14%	4%
2010-11	457	41%	19%	
2011-12 *	305	67%		

*FY 2011-12 had fewer findings due to fewer reviews finalized by June 30, and discontinuing certain tests, such as ACES documentation, which was rendered obsolete by myCalPERS. In addition, many reviews were issued later in the fiscal year so corrective action had not yet been undertaken.

Internal audits

As of June 30, 2012, there are no internal findings over one year old. The enterprise is in compliance with the Board approved Audit Resolution Policy.

During the fourth quarter, five internal audits were completed with a total of 34 findings. Of the 34 findings, 50 percent were compliance findings, such as ensuring deliverables are submitted timely. During the quarter, 30 findings were resolved, leaving 49 still open as of June 30, 2012. Please see Attachment 1 for additional information on internal audit findings.

Real estate reviews

As of the fourth quarter, nine current year findings remain open. All prior year findings have been resolved. Please see Attachment 1 for additional information on real estate findings.

Financial statement audit management letter – Macias Gini & O'Connell

The status of the six current year Macias Gini & O'Connell management letter findings is shown in Attachment 2A, and the status of prior year findings is in Attachment 2B. The financial statement auditors, Macias Gini & O'Connell, determined that four of the six current year findings are significant deficiencies in internal controls over financial reporting, and therefore require immediate corrective action. Management's responses and planned corrective action are included on the attachment. All observations will be reported to the Risk and Audit Committee until each is fully resolved.

Status of Audit Plan

- The internal audit plan included 48 projects. We completed 45 projects, including some projects started in prior fiscal years. Twelve more were issued in draft by June 30, 2012. The draft reports will be issued shortly after we receive the division's responses. During our fourth quarter, we also refreshed the audit plan by deferring *Management of System Incidents and Problems* based on resource constraints. This review will be performed in FY 2012-13.
- The public agency audit plan included 55 reviews. We issued 44 public agency reviews in final form, with 11 more issued in draft by June 30. All of these will be issued shortly in final form after we receive the agency's responses, so the FY 2011-12 plan will be completed, but several weeks past the June 30 target date due to staff vacancies, and several reviews that required much higher than normal staff resources.

Audit Services Staff Education and Experience

Standard 1210 requires the internal audit activity to collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Office of Audit Services staff possess proficiency in many areas that include internal controls, public agency compliance, risk assessment, financial audits, health programs, information technology systems, information technology security, investments, real estate, benefit administration, and project management. In addition, staff exhibit a high level of educational achievement, complemented with many years of CalPERS and total audit experience, as seen in Tables 2 through 4 below.

Table 2 – Office of Audit Services Audit Experience

Office of Audit Services Experience (Years)	Staff
Up to Two	14
Three to Five	11
Six to Ten	12
More than 10	8

Table 3 – Total Years of Audit Experience

Total Audit Experience (Years)	Staff
Up to Two	3
Three to Five	15
Six to Ten	9
More than 10	18

Table 4 – Education

Education	Degrees
Associate of Arts	2
Bachelor of Arts or Science	39
Masters	9

Titles and Certifications

Audit Services staff, comprising the job titles shown below in Table 5 and 6, hold a wide variety of professional certifications.

Table 5 – Audit Services Job Titles

Title	No. of Staff
Chief Auditor	1
Supervising Management Auditors	3
Staff Services Manager III	1
Senior Program Evaluators	3
Senior Program Evaluator (Information Systems)	1
Staff Management Auditors	2
Information System Evaluators	4
Public Agency Evaluators	15
Internal Evaluators	<u>17</u>
Total Audit Positions	47

Table 6 – Professional Certifications

Certification	No. of Staff
Certified Internal Auditor	11
Certified Public Accountant	11
Certified Information Systems Auditor	3
Certified Investments and Derivatives Auditor	3
Certified Government Auditing Professional	1
Certified Fraud Examiner	<u>2</u>
Total Certifications	31

Quality Assurance and Improvement Program

Standard 1320 requires the Chief Auditor to communicate the results of the quality assurance and improvement program to senior management and the Board. As part of the Quality Assurance and Improvement Program, the Office of Audit Services performs internal assessments of the internal audit activity through ongoing reviews and periodic self-assessments. For 2011-12, we completed the following:

- Received the highest opinion available for conformance to the Standards on our Quality Assurance Review.
- Improved documentation of consideration of potential staff conflicts of interest when conducting internal audits and enhanced our training database.
- Updated the Office of Audit Services Charter and enhanced other internal processes, policies, and procedures.
- Reported regularly to Executive Risk Committee on audit findings and worked with the Chief Risk Officer to develop protocols for escalation of acceptance of risk.
- Conducted reviews of contracting public agencies that disclosed numerous unlawful activities, excessive pay rates, and misclassified positions to enhance retirement benefits.
- Provided clarifying language for regulations that indicate the conditions for payment of special compensation and describe the requirements for a publicly available salary schedule.
- Served in a leadership capacity on the Enterprise Workload Management Committee, and participated on National Association of Bond Lawyers (NABL) Task Force on pension disclosures, and other audit professional organizations.

In addition, as part of our Quality Assurance and Improvement, the Office of Audit Services sends a customer satisfaction survey at the conclusion of internal audits and public agency reviews. The survey questions focus on the audit process and report, overall value, and communication. For 2011-12, the return response from internal management and public agencies was 50 and 37 percent, respectively. The results of the survey indicate internal management and public agencies' overall responses to the questions were generally positive. From the suggestions provided, we have identified report turnaround time as an area we plan to target for improvement in fiscal year 2012-13.

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

Standard 1010 requires the Chief Auditor to discuss the definition of internal auditing, the Code of Ethics, and the Standards with senior management and the Board. The definition of internal auditing states the fundamental purpose, nature, and scope of internal auditing. 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 mandatory and are principle-focused to provide a framework for performing and promoting internal auditing.

ATTACHMENTS

- Attachment 1 – Status of Audit Findings Dashboard
- Attachment 2A – Status of Current Year Financial Statement Audit Management Letter Comments
- Attachment 2B – Status of Prior Year Financial Statement Audit Management Letter Comments

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