



Consent

Agenda Item 4d

December 10, 2012

ITEM NAME: Office of Audit Services Quarterly Status Report

PROGRAM: Audit Services

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

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

STRATEGIC PLAN

This item is not a specific product of the Strategic Plan, but is required by the Board approved Audit Resolution Policy and the Office of Audit Services Charter.

BACKGROUND

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

ANALYSIS

Public agency reviews

During the first quarter, 3 public agency reviews, issued in draft as of June 30, 2012, were completed with a total of 18 findings. Of the 18 findings, 28 percent were membership findings, such as employees not being properly enrolled. In addition, 34 reviews are in progress for the current fiscal year, in addition to seven reviews focused on a single in-depth issue.

During the quarter, 87 findings were resolved, leaving 241 still open as of September 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 on the next page shows the aging trend of all open public agency findings as of September 30, 2012.

Table 1 – Percentage trend of unresolved findings

Fiscal Year	Total Findings	At the End of the 1 st FY (Yr Report was Issued)	At the End of the 2 nd FY	At the End of the 3 rd FY	At the End of the 4 th FY
2007-08	328	41%	9%	1%	0%
2008-09	457	28%	8%	1%	0%
2009-10	455	40%	14%	4%	-
2010-11	457	41%	19%	-	-
2011-12	304	67%	-	-	-
2012-13	18*	-	-	-	-

*At first quarter

Internal audits

During the first quarter, three internal audits were completed with a total of seven findings. Of the 7 findings, 57 percent were operational findings, such as developing or enhancing policies and procedures. In addition, nine reports have been issued in draft.

As of September 30, 2012, there are no unresolved internal findings over one year old, continuing the enterprise’s compliance with the Board approved Audit Resolution Policy. During the quarter, 47 findings were resolved, leaving 6 still open as of September 30, 2012. Please see Attachment 1 for additional information on internal audit findings.

Real estate reviews

As of the first quarter, 10 findings were resolved, leaving 2 findings open as of September 30, 2012. 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 corrective action plans are included on the attachment. Management anticipates all findings will be resolved by December 2012, pending validation by Macias Gini & O’Connell. The validation of the resolution of these findings will be reported when complete.

Status of Audit Plan

The fiscal year 2012-13 Approved Audit Plan is in progress. The Office of Audit Services will continue to monitor and recommend any additional modifications of the audit plan to respond to changing conditions.

Public Pension System Employer Audit Survey Results

CalPERS recently participated in a survey conducted by a public pension system in another state on the topic of public pension systems' employer audit activities. Of the 29 systems that elected to participate in the survey, just under half, or 13 systems, reported performing employer audits of any type. Of these, most reported a combination of on-site and desk-type reviews. The extent of employer audit activity and perceived risk regarding employer reporting varied widely within the survey, and no overall sense of the optimal number or type of employer audits emerged. Based on our review of the survey, CalPERS employer audit program appears to be among the most extensive and in-depth among survey respondents. To further expand and improve our program, Office of Audit Services will add five new positions dedicated to employer audits as of January 1, 2013, and will request five more positions in the upcoming annual budget process. Office of Audit Services will continue to monitor trends and best practices for employer audits.

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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