



## CalPERS Office of Audit Services Audit Resolution Policy

---

### Purpose

In accordance with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Chief Auditor is required to establish a follow-up process to monitor audit findings and to ensure management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

---

### Policy

The policy provides a system to track corrective actions or acceptance of risk taken by management on reported audit issues and to convey these actions to Executive management and to the Finance Risk and Audit Committee in keeping with the Board of Administration's fiduciary oversight responsibilities.

Management has a responsibility to promptly evaluate reported audit findings, determine appropriate actions to best resolve outstanding items reported, and assure completion of the actions within an established timeframe. The resolutions process is the follow-up phase of the audit to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Topic	See Page
Internal Audits	2
Public Agency Reviews	4
Investment Program Audits	5
External Audits	6

---

## Internal Audits

---

### Internal Audits Defined

Internal audits are performed by the internal audit team of the Office of Audit Services on compliance and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audits also include audits of health maintenance organizations, third-party administrators, and external providers of investment-related services.

---

### Internal Audit Final Report

Office of Audit Services will transmit the final audit report which includes management's written response outlining its planned corrective action for all findings and recommendations. Office of Audit Services monitors and reports on the resolution status of all findings to the appropriate division management and Executive staff until fully resolved.

---

### Resolution Options

Audit findings can be resolved in one of two ways.

- Implement the recommendation contained in the report.
  - Accept the risk of not implementing corrective action due to cost or other considerations. [Refer to Acceptance of Risk on page 3 of this policy.](#)
- 

### Completion

The audited division shall notify the Office of Audit Services when the audited division has implemented the recommendation contained in the final report. Office of Audit Services shall perform tests as deemed necessary to ensure that management has implemented appropriate corrective action.

Division management that has oversight of health maintenance organizations, third-party administrators, or external providers of investment-related services shall be responsible for ensuring resolution of audit findings and determining if the corrective action has been implemented.

---

*Continued on next page*

## Internal Audits, Continued

---

### Findings Unresolved for Six Months

Findings unresolved for six months from the date of the final audit report shall be reported to the Executive Risk Committee, comprising CalPERS Executive staff.

---

### Findings Unresolved for One Year and Acceptance of Risk

When any findings remain unresolved for one year, the ~~executive of Deputy over~~ the audited division shall be required to affirmatively accept the risk of not implementing corrective action, and provide a written explanation as to why the acceptance of risk is the most appropriate disposition of the issue. The steps outlined under Acceptance of Risk will apply. ~~This action will be reported to the Risk Committee or to the Finance Committee. Management shall be available at Finance Committee meetings to respond to any questions regarding their program areas.~~

~~The Chief Auditor shall work with Executive management and the Chief Risk Officer regarding all prospective acceptance of risk. In addition, the Chief Auditor shall work with the Chief Risk Officer to establish a mechanism and process to track all accepted risks and to include these risks in the enterprise risk monitoring process.~~

~~In accordance with the Standards for the Professional Practice of Internal Auditing and Government Code Section 13887.5, if the Chief Auditor believes that management has accepted a level of residual risk that may be unacceptable to the organization, the Chief Auditor must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Chief Auditor must report the matter to the Board for resolution.~~

---

### Acceptance of Risk

After the final audit report is issued, the audited division may accept the risk of not implementing corrective action, and provide a written explanation as to why the acceptance of risk is the most appropriate disposition of the issue. Any proposed acceptance of risk must be signed off by the respective Deputy.

The Chief Auditor shall work with Executive management and the Chief of Risk, Compliance and Ethics regarding all prospective acceptance of risk. In addition, the Chief Auditor shall work with the Chief of Risk, Compliance and Ethics to establish a mechanism and

process to track all accepted risks and to include these risks in the enterprise risk monitoring process. This action will be reported to the Executive Risk Committee, comprising CalPERS Executive staff, and if approved, to the Risk and Audit Committee of the Board of Administration. Management of the audited division shall be available at Risk and Audit Committee meetings to respond to any questions regarding their program areas.

In accordance with the *Standards* and Government Code Section 13887.5, if the Chief Auditor believes that management has accepted a level of risk that may be unacceptable to the organization, the Chief Auditor must discuss the matter with senior management. If the decision regarding the matter has not been resolved, the Chief Auditor must communicate the matter to the Board.

**Report to  
Finance-Risk  
and Audit  
Committee**

---

The Chief Auditor shall provide quarterly status reports to the Finance Risk and Audit Committee.

---

## Public Agency Reviews

---

### Public Agency Reviews Defined

Reviews of contracting public agencies, school districts, California State Universities, and State agency reviews for compliance with aspects of the Public Employees' Retirement Law and their contract with CalPERS.

---

### Public Agency Final Report

Office of Audit Services will issue a final report on the results of the public agency review to the subject agency, the appropriate divisions, and the Finance Risk and Audit Committee. As part of the final report, ~~the~~ agency's written response will be included stating either concurrence or non-concurrence with all findings and recommendations ~~and as well as any provide~~ explanatory comments ~~will be included as part of the final report.~~

---

### Responsibility

The agency and applicable divisions will work in conjunction to take the necessary corrective actions to address the findings and bring the agency into compliance with the Public Employees' Retirement Law, regulations and contract.

- The agency and the applicable division management have 90-120 calendar days to resolve the findings.
  - Executive management will periodically follow up to ensure that findings are resolved timely.
  - Office of Audit Services will report findings that are not resolved within 12 calendar months to the Executive management Risk Committee.
- 

### Report to Finance Risk and Audit Committee

The Chief Auditor shall provide quarterly status reports to the Finance Risk and Audit Committee of the Board of Administration.

---

## Investment Program Audits

---

### Investment Program Audits Defined

Agreed-upon procedures completed by external auditors of general partners, advisors, and property managers. Office of Audit Services oversees and manages these agreed-upon procedures engagements.

---

### Final Report

The final report details findings, recommends corrective action, and includes the general partner, advisor, or property manager's response to the findings.

---

### Responsibility

- Program management shall be responsible for obtaining specific corrective actions from the general partner, advisor, or property manager to resolve the findings and completion dates for implementing those actions.
  - Program management shall be responsible for ensuring resolution of audit findings and ensuring that the general partner, advisor, or property manager implements property level corrections on a portfolio-wide basis as appropriate.
  - Office of Audit Services will report findings that are not resolved within 12 calendar months to the Executive ~~management~~Risk Committee.
- 

### Report to ~~Finance-Risk and Audit~~ Committee

The Chief Auditor shall provide quarterly status reports to the ~~Finance~~ Risk and Audit Committee of the Board of Administration.

---

## External Audits

---

### External Audits Defined

Audits performed by CalPERS independent financial statement auditor and any other external audits that may occur.

---

### Final Report

The final report details findings, recommends corrective action, and includes management's response to the findings.

---

### Responsibility

- Management is responsible for providing the Office of Audit Services with specific corrective actions to resolve the findings and completion dates for implementing those actions.
  - Office of Audit Services will report to the Executive management Risk Committee when corrective actions are not implemented in a timely manner.
- 

### Completion

The applicable division shall notify the Office of Audit Services when the division has implemented the recommendation contained in the report. Office of Audit Services will obtain and review information for audit finding closure and notify the external auditor. The external auditor shall perform tests as deemed necessary to ensure that management has implemented appropriate corrective action. The Office of Audit Services will report outstanding findings periodically to the Executive Risk Committee.

---

### Report to Finance-Risk and Audit Committee

The Chief ~~of Audit Services~~Auditor shall provide quarterly status reports to the ~~Finance-Risk and Audit~~ Committee.

---