



## Consent

### Agenda Item 5d

March 20, 2013

**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 December 31, 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 second quarter, 9 public agency reviews were completed with a total of 66 findings. Of the 66 findings, 38 percent were compensation findings, such as compensation reported incorrectly. For the current fiscal year, 29 reviews are in progress, in addition to 7 reviews focused on a single in-depth issue, for a total of 36 in progress.

During the quarter, 102 findings were resolved, leaving 206 still open as of December 31, 2012. Notably, all findings from FY 2009-10 are now resolved. 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. Table 1 shows the aging trend of all open public agency findings as of December 31, 2012.

Table 1 – Percentage trend of unresolved findings

Fiscal Year	Total Findings	At the End of the 1 <sup>st</sup> FY (Yr Report was Issued)	At the End of the 2 <sup>nd</sup> FY	At the End of the 3 <sup>rd</sup> FY	At the End of the 4 <sup>th</sup> 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	84*	-	-	-	-

\*At second quarter

The Office of Audit Services is currently recruiting for new public agency audit staff based on its mid-year budget request. In addition, a budget request for another increase in staff is in progress.

#### Internal audits

During the second quarter, 5 internal audits were completed with a total of 13 findings. Of the 13 findings, 69 percent were operational findings, such as developing or enhancing policies and procedures.

As of December 31, 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, 8 findings were resolved, leaving 11 still open as of December 31, 2012. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years. Please see Attachment 1 for additional information on internal audit findings.

#### Real estate reviews

During the second quarter, one review was completed. As of December 31, 2012, there are two open issues from the prior year. Please see Attachment 1 for additional information on real estate findings.

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

The draft management letter as prepared by Macias Gini & O'Connell for fiscal year ended June 30, 2012, as well as the status of prior years' observations, will be presented in Agenda Item 5a. Observations in the 2012 management letter, as well as any remaining from prior years, will be reported to the Risk and Audit Committee until each is fully resolved and Macias Gini & O'Connell concurs that corrective action has been implemented.

Status of Audit Plan

The fiscal year 2012-13 Approved Audit Plan is in progress. As part of our plan, to remain flexible and responsive to the fast-changing conditions in the current environment, and ensure the Office of Audit Services' support of key enterprise initiatives and management requests, the Office of Audit Services proposes to add the following:

- Incorporate a review of manual overrides in my|CalPERS in the Death Benefits Review.
- Review of Payroll Reporting that includes manual overrides in my|CalPERS.
- Increased reviews in administrative accounting and financial reporting areas

Therefore, the Office of Audit Services proposes to reprioritize the following internal projects:

- Cash management – business plan objective completion date is June 2013
- Contract development for Health Maintenance Organizations (HMOs), Third Party Administrators (TPAs), and Pharmacy Benefit Managers (PBMs) – reschedule to reflect program timelines
- IT human resources management – lower risk priority as mitigations planned

**ATTACHMENT**

Attachment 1 – Status of Audit Findings Dashboard

---

MARGARET JUNKER, Chief  
Office of Audit Services

---

PETER H. MIXON  
General Counsel