



## Consent

### Agenda Item 5f

June 19, 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 March 31, 2013.

#### **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 third quarter, 4 public agency reviews were completed with a total of 24 findings. Of the 24 findings, 33 percent were payroll reporting errors, such as incorrect reporting of payrate and earnings. Other findings included the lack of publicly available pay schedules, retired annuitants exceeding the 960 hour limit, and part timers not enrolled correctly. Thirty-six reviews are in progress, and we anticipate most of these will be issued in the fourth quarter.

During the quarter, 108 findings were resolved, leaving 123 still open as of March 31, 2013. 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 March 31, 2013.

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	107*	-	-	-	-

\*At third quarter

### Internal audits

As of March 31, 2013, 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, 7 findings were resolved, leaving 15 still open as of March 31, 2013. 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.

During the third quarter, 2 internal audits were completed with a total of 11 findings. Of the 11 findings, 55 percent were operational findings, such as developing or enhancing policies and procedures. The remaining findings were in the area of compliance.

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, we propose the following to refresh our audit plan:

- Adding a Community Property review that includes a focus on manual overrides in my|CalPERS.
- Reprioritizing the Complementary Annuitant Premium Program and Update and maintain health plan eligibility to reflect program timelines.

### Real estate reviews

During the third quarter, two reviews were completed. As of March 31, 2013, all issues are resolved. Please see Attachment 1 for additional information on real estate findings.

### Financial statement audit Management Letter – Macias Gini & O’Connell LLP

The financial statement auditors, Macias Gini & O’Connell LLP, presented the Management Letter at the March 2013 Risk and Audit Committee. The auditor reported on three significant deficiencies in internal controls over financial reporting, which require immediate corrective action, as well as five additional observations.

The management responses and corrective action plans for the current year findings are shown in Attachment 2A, and the status of prior year findings is in Attachment 2B. All open findings will be reported to the Risk and Audit Committee until fully resolved.

### Business Plan Reassurance

During the third quarter, we provided reassurance services by validating achievements of selected FY 2012-14 Business Plan objectives, as set forth in the Office of Audit Services performance objectives.

We validated that the progress reported for the Business Plan initiative 2.5, Investment Office organization, systems, and controls, is accurate. The Investment Office has conducted a Risk Assessment and developed a revised heat map, identifying the Investment Office’s top risks, developed a detailed policy inventory sheet that incorporated a comprehensive review of all investment policies and the associated monitoring/manual controls that need to be put in place, initiated performance attribution model for Global Equity, and introduced Investment Beliefs to the Board at the January Board Offsite meeting.

With regard to Business Plan initiative 3.1, we validated that Fiscal Services (FCSD) has reviewed GASB 67, assessed the impacts to the CalPERS CAFR, and drafted an Accounting Treatment Memo documenting the impacts and changes to the CAFR. As of April 30, FCSD is in the process of documenting the business requirements necessary for changes to myCalPERS related to GASB 67. These changes are scheduled for a January 2014 implementation. FCSD will continue to develop table templates for the new note requirements and required supplemental information through August 2013, document myCalPERS system requirements and business rules through December 2013, and review and update business processes through December 2013. We also validated that the Actuarial Office (ACTO) has reviewed GASB 68 requirements, assessed impacts on ACTO staffing level, and drafted an implementation plan. ACTO obtained Board approval in March 2013 to provide GASB 68 information to employers on a voluntary fee for service basis. For GASB 68, the current project plan is to assess impacts to PeopleSoft and myCalPERS by July 31, 2013 and submit a mid-year FBR for funds to implement a billing and tracking system for GASB 68 reports. In addition, ACTO plans to procure a contractor to help assess and plan changes to Actuarial Valuation System by August 1, 2013.

We also validated the progress reported for the Business Plan initiative 9.9, develop and implement improved investment reconciliation process, is accurate. The Financial Office has completed testing of AREIS data interface into the financial system which provides better control and reconciliation for real estate accounting data.

The Office of Audit Services will continue to monitor and report on progress on these Business Plan Objectives.

**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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