



## Consent

### Agenda Item 4f

September 17, 2013

**ITEM NAME:** Office of Audit Services Quarterly and Year-End 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 June 30, 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 fourth quarter, 7 public agency reviews were completed with a total of 44 findings. Major issues identified included non-compliance with regulations regarding publicly available pay schedules and erroneous reporting of employees. Other findings included payrate reporting errors, employees not enrolled properly, and special compensation errors. Twenty-seven reviews are in progress, and we anticipate most of these will be issued in the first quarter of fiscal year 2013-2014.

During the quarter, 57 findings were resolved, leaving 110 still open as of June 30, 2013. Overall, findings are being resolved in a timely manner. 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 June 30, 2013.

**Table 1 – Percentage trend of unresolved findings for Public Agency reviews**

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%	0%
2010-11	457	41%	19%	0.4%	-
2011-12	304	67%	11%	-	-
2012-13	151	50%	-	-	-

Internal audits

As of June 30, 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, 12 findings were resolved, leaving 18 still open as of June 30, 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 fourth quarter, 6 internal audits were completed with a total of 15 findings. Of the 15 findings, 67 percent were operational findings, such as maintaining accurate logs or/and records and enhancing policies and procedures. The remaining were compliance and financial findings.

Status of Audit Plan

- The public agency program issued 16 final reports and 18 drafts which were awaiting agency responses as of June 30, 2013. In addition, 8 more reports were significantly completed, but complex reporting issues necessitated continued analysis and review beyond June 30, 2013. These will be issued as soon as possible. The total of the above is 42, or approximately 90 percent of the planned 47. In addition to the 42 projects, we completed and issued 11 additional reports that were issued in draft as of June 30, 2012 from the prior year’s plan, many of which required significant work in the current year.
- The internal audit plan included 53 projects. We completed 39 projects, including some projects started in prior fiscal years and 19 more were issued in draft by June 30, 2013. The draft reports will be issued shortly after we receive the division’s responses.

Real estate reviews

During the fourth quarter, three reviews were completed. As of June 30, 2013, there are no open issues for follow-up.

Financial statement audit management letter – Macias Gini & O’Connell LLP

The Board’s financial statement auditors, Macias Gini & O’Connell LLP, presented the Management Letter for the June 30, 2012 financial statement audit 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.

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	16
Three to Five	10
Six to Ten	11
More than 10	8

**Table 3 – Total Years of Audit Experience**

Total Audit Experience (Years)	Staff
Up to Two	3
Three to Five	11
Six to Ten	13
More than 10	18

**Table 4 – Education**

Education	Degrees
Associate of Arts	2
Bachelor of Arts or Science	41
Masters	10

Certifications

Audit Services staff, shown below in Table 5, hold a wide variety of professional certifications.

**Table 5 – Professional Certifications**

Certification	No. of Staff
Certified Internal Auditor	9
Certified Public Accountant	10
Certified Information Systems Auditor	4
Certified Investments and Derivatives Auditor	3
Certified Fraud Examiner	1
Certification in Risk Management Assurance	1
Chartered Global Management Accountant	1
Certified Information Systems Security Professional	1
Total Certifications	30

### 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 2012-13, we identified the following areas to target for improvement in fiscal year 2013-14:

- Increased focus on completing reviews within budgeted hours and timeframe.
- Updating internal practices to have staff include strategic risk when evaluating risk exposures relating to the organization's governance, operations, and information systems.

In addition to our internal assessments of the internal audit activity, an external peer review is performed every five years. The next external peer review will be conducted in 2016.

Furthermore, 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 2012-13, the return response from internal management and public agencies was 18 and 40 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 2013-14.

### 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.

**BUDGET AND FISCAL IMPACTS**

Not Applicable.

**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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