



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 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.

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Internal Audits

Internal Audits Defined

The internal audit team of the Office of Audit Services performs internal audits 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.

- Management implements the recommendation contained in the report.
 - Management accepts the risk of not implementing corrective action due to cost or other considerations. Refer to Acceptance of Risk on page 3 of this policy.
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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.

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Internal Audits, Continued

**Findings
Unresolved
for Six
Months**

The Chief Auditor shall report findings unresolved for six months from the date of the final audit report to the Enterprise Risk Management Committee, comprising CalPERS Executive staff.

**Findings
Unresolved
for One Year**

When any findings remain unresolved for one year, the 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.

**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. The respective Deputy must sign off on any proposed acceptance of risk.

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 Enterprise Risk Management 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(a), 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 report the matter to the Board.

**Report to Risk
and Audit
Committee**

The Chief Auditor shall provide quarterly status reports to the 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 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 as well as any explanatory comments.

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 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 Enterprise Risk Management Committee.
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Report to Risk and Audit Committee

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

Investment Program Audits

**Investment
Program
Audits
Defined**

Office of Audit Services engages external audit firms to perform agreed-upon procedures engagements with CalPERS general partners, advisors, and property managers. An agreed-upon procedures engagement, consistent with American Institute of Certified Public Accountants (AICPA) Attestation Standards, is one in which an external auditor is engaged by CalPERS to issue a report of findings based on specific procedures performed on a subject matter.

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 Enterprise Risk Management Committee.

**Report to Risk
and Audit
Committee**

The Chief Auditor shall provide quarterly status reports to the 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 Enterprise Risk Management Committee when corrective actions are not implemented in a timely manner.
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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 Enterprise Risk Management Committee.

Report to Risk and Audit Committee

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