



Consent

Agenda Item 4d

September 16, 2014

ITEM NAME: Quarterly and Year End Status Report – Office of Audit Services

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 and Year End Status Report of audit activity. The following provides the status of projects and activities as of June 30, 2014.

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, 21 public agency reviews were completed with a total of 145 findings. Of the 145 findings, 44 percent were compensation findings, such as members' regular earnings and special compensation not being correctly reported. Fifty-four reviews are in progress, and we anticipate most of these will be issued in the first quarter of fiscal year 2014-2015.

During the quarter, 40 findings were resolved, leaving 189 still open as of June 30, 2014. Detail on all public agency findings is available from 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 June 30, 2014. The trend toward prompt resolution of findings is overall positive.

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

Fiscal Year	Total Findings	At the End of the 1 st FY (Yr Report was Issued)	At the End of the 2 nd FY	At the End of the 3 rd FY	At the End of the 4 th FY
2011-12	304	67%	11%	2%	-
2012-13	151	50%	4%	-	-
2013-14	290	61%	-	-	-

Internal audits

As of June 30, 2014, 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, 29 findings were resolved, leaving 24 still open as of June 30, 2014. 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 18 findings. Of the 18 findings, 78 percent were operational findings, such as maintaining adequate supporting documentation and enhancing policies and procedures. The remaining were compliance findings.

Status of Audit Plan

- The 2013-14 approved audit plan included 93 public agency reviews. This fiscal year, we reviewed 99 public agencies and issued 48 final reports and 34 drafts which were awaiting agency responses as of June 30, 2014. In addition, 17 more reports were significantly completed and going through quality review. These will be issued as soon as possible.
- The internal audit plan included 56 projects. We completed 44 projects, including some projects started in prior fiscal years and 14 more were issued in draft by June 30, 2014. The draft reports will be issued shortly after we receive the division’s responses.

Real estate reviews

During the fourth quarter, 9 real estate reviews were completed which included a total of 70 findings. A majority of the issues were related to property management such as incomplete tenant lease files and incomplete vendor or contractor files.

Six reviews are in progress and we anticipate issuing three reports in the first quarter of fiscal year 2014-2015. Real estate reports are available in the Office of Audit Services, upon request. Please see Attachment 1 for additional information on real estate findings.

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, 2013 financial statement audit at the March 2014 Risk and Audit Committee. The auditor reported on one material weakness and one significant deficiency in internal controls over financial reporting, which require immediate corrective action, as well as two additional observations. The observations are summarized on Attachment 2. Summarized status of prior year findings is in Attachment 3. The full detail on all current and prior year findings, recommendations, and management’s responses are available on file in the Office of Audit Services, upon request.

All open findings will be reported to the Risk and Audit Committee until fully resolved and Macias Gini & O’Connell concurs that corrective action has been implemented, in accordance with the Board-approved Audit Resolution Policy.

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	19
Three to Five	10
Six to Ten	12
More than 10	5

Table 3 – Total Years of Audit Experience

Total Audit Experience (Years)	Staff
Up to Two	5
Three to Five	11
Six to Ten	13
More than 10	17

Table 4 – Education

Education	Degrees
Associate of Arts	1
Bachelor of Arts or Science	44
Masters	11

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 Public Accountant	11
Certified Internal Auditor	10
Certified Information Systems Auditor	5
Certified Investments and Derivatives Auditor	3
Certified Fraud Examiner	1
Certified Government Auditing Professional	1
Chartered Global Management Accountant	1
Certified Information Systems Security Professional	1
Total Certifications	33

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 2013-14, we identified the following areas to target for improvement in fiscal year 2014-15:

- Increased focus on completing reviews within budgeted hours and timeframe.
- Provide refresher training to staff on indexing draft reports and quality control reviews.

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 2013-14, the return response from internal management and public agencies was 22 and 13 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 2014-15.

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 2 – Status of Current Year Financial Statement Audit Management Letter Comments
- Attachment 3 – Status of Prior Year Financial Statement Audit Management Letter Comments

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