



## Consent

### Agenda Item 4d

November 18, 2014

**ITEM NAME:** Quarterly 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 Status Report of audit activity. The following provides the status of projects and activities as of September 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

As of September 30, 2014, the Office of Audit Services completed 29 public agency reviews with a total of 195 findings. Of the 195 new findings, 44 percent were compensation findings, such as members' regular earning and special compensation not being correctly reported. Currently, 51 reviews are in progress comprised of 49 comprehensive reviews and 2 focused reviews.

In addition, as part of CalPERS' annual financial statement audit, the Office of Audit Services is assisting CalPERS' independent auditor, Macias Gini & O'Connell LLP, with the coordination and testing of active member census data. The testing of active member census data at the employers' sites is attributable to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 67: *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, effective fiscal years beginning after June 15, 2013. As a result, the Office of Audit Services is performing limited scope reviews of 16 public agencies to ensure census data used in the actuarial valuation are accurate. Similarly, during the next quarter, staff will

participate in additional limited scope reviews of various school districts. These validation procedures will be added to the current audit program for 2014-15.

In accordance with the Board approved Audit Resolution Policy, the audited agency and applicable CalPERS divisions work in conjunction to take the necessary corrective action to address the findings and bring the agency into compliance with the Public Employees' Retirement Law (PERL), regulations, and contracts. In addition, the applicable CalPERS divisions, typically Customer Account Services Division and/or Benefit Services Division depending on the type of finding, periodically follow up to ensure that findings are resolved timely. During the quarter, management of Customer Account Services Division and Benefit Services Division reported that 44 findings were resolved. The trend toward prompt resolution of findings is overall positive. Please see Attachment 1 for additional information on public agency findings.

#### Internal audits

As of September 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, 7 findings were resolved. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years.

During the first quarter, 7 internal audits were completed with a total of 18 findings in operational and compliance areas. Please see Attachment 1 for additional information on internal audit findings.

#### Real estate reviews

As of September 30, 2014, 6 real estate reviews were completed which included a total of 60 findings. A majority of the issues were related to property management such as incomplete tenant lease files, incomplete vendor or contractor files, and cost allocation.

Five reviews are in progress and we anticipate three reports will be issued in the second quarter of fiscal year 2014-15. 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 Meeting. The auditor reported 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 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.

State Controller's Office Review Report on Pension Controls and Mechanisms

The State Controller's Office issued the Review Report on Pension Controls and Mechanisms on September 9, 2014. The report did not identify pension spiking. The State Controller's Office reported on one finding, which included six recommendations, and one observation. The finding and observation is summarized on Attachment 4 along with management's responses.

**BUDGET AND FISCAL IMPACTS**

Not applicable.

**BENEFITS/RISKS**

The Quarterly Status Report of audit activity provides periodic reporting to the Board regarding performance relative to the audit plan and other matters needed or requested. The periodic reporting of this information to the Board is in accordance with the International Standards for the Professional Practice of Internal Auditing, the Board approved Audit Resolution Policy and the Office of Audit Services Charter.

**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
- Attachment 4 – Summary of State Controller's Office Review Report on Pension Controls and Mechanisms

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PHYLLIS MILLER, Acting Chief  
Office of Audit Services

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MATTHEW G. JACOBS  
General Counsel