



Consent

Agenda Item 5d

March 17, 2015

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 December 31, 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 second quarter, the Office of Audit Services completed 12 public agency reviews with a total of 59 findings. Of the 59 new findings, 49 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. In addition, the Office of Audit Services completed 38 new specialized reviews related to Governmental Accounting Standards Board (GASB) Statement No. 67, consisting of 16 public agencies, 21 school districts, and the Los Angeles County Superior Court. The new specialized reviews were completed to assist CalPERS' independent auditor, Macias Gini & O'Connell LLP, with the coordination and testing of active member census data required as part of CalPERS' annual financial statement audit. Currently, 65 reviews are in progress, comprised of 63 comprehensive reviews and two focused reviews.

During the quarter, the Customer Account Services Division and the Benefit Services Division reported that 84 findings were resolved, leaving 315 open as of December 31, 2014. The Office of Audit Services is in the process of validating the reported resolution of findings. The trend toward prompt resolution of findings is

overall positive. Please refer to Attachment 1 for additional information on the public agency findings.

Further, the Office of Audit Services participated in the 2014 CalPERS Educational Forum in which staff assisted in the development of three presentations, participated as key speakers in two audit-related sessions, hosted an audit exhibit table, and worked with CalPERS staff assisting employers in the audit resolution meeting room.

Internal audits

As of December 31, 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, 17 findings were resolved. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years.

During the second quarter, three internal audits were completed with a total of 12 findings in operational and compliance areas. Please see Attachment 1 for additional information on internal audit findings.

In addition, the Office of Audit Services allocated additional resources to assist Macias Gini & O'Connell LLP with active member census data testing and participated in a working group that will provide audited financial information to assist employers with their implementation of the new accounting standard, GASB 68.

Real estate reviews

During the second quarter, three real estate reviews were completed and three reviews are in progress. The reports from these reviews are available upon request. Please see Attachment 1 for additional information on real estate findings.

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

The draft management letter prepared by Macias Gini & O'Connell LLP for fiscal year ended June 30, 2014, as well as the status of prior years' observations, will be presented in Agenda Item 6a. Observations in the 2014 management letter, as well as any remaining observations from prior years, will be reported to the Risk and Audit Committee until each observation is fully resolved and Macias Gini & O'Connell LLP concurs that corrective action has been implemented.

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 any instances of pension spiking. The State Controller's Office reported on one finding, which included six recommendations, and one observation. The finding and observation are summarized on Attachment 2 along with management's status updates.

Status of Audit Plan

The fiscal year 2014-15 Approved Audit Plan is in progress. In order to remain flexible and responsive to the fast-changing conditions in the current environment, ensure the Office of Audit Services' support of key enterprise initiatives and management requests, and account for staff vacancies, the Office of Audit Services proposes the following revisions to the audit plan:

Internal audits

Recommends adding the following project:

- GASB 68 Coordination

Recommends deferring the reviews listed below, mainly due to redirecting resources to other critical operational needs, such as active member census data testing and GASB 68 coordination, and staff vacancies:

- Form 700
- Private equity external partner review
- Protection over personally identifiable information
- Recruitment

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 (Standards), the Board approved Audit Resolution Policy and the Office of Audit Services Charter. The risk of not reporting periodically is non-compliance with the Standards.

ATTACHMENTS

Attachment 1 – Status of Audit Findings Dashboard

Attachment 2 – Summary of State Controller's Office Review Report on Pension Controls and Mechanisms

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