



Consent

Agenda Item 4d

June 16, 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 (Standards), the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of March 31, 2015.

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 third quarter, the Office of Audit Services completed 13 public agency reviews with a total of 57 findings and one focus review with a total of three findings. Of the 57 new findings, 37 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Currently, 76 reviews are in progress.

During the quarter, the Employer Account Management Division and the Benefit Services Division reported that 74 findings were resolved, leaving 301 open as of March 31, 2015. 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 public agency findings.

Internal audits

As of March 31, 2015, 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, 26 findings were resolved. Overall, we have noted a

significant trend toward more timely resolution of internal findings over the past several years.

During the third quarter, three internal audits were completed with a total of 11 findings in operational areas such as maintaining appropriate documentation, establishing written procedures, and completing timely reconciliations. Please see Attachment 1 for additional information on internal audit findings.

Real estate reviews

During the third quarter, eight reviews were in progress. Real estate 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 Board’s financial statement auditors, Macias Gini & O’Connell LLP, presented the Management Letter for the June 30, 2014 financial statement audit at the March 2015 Risk and Audit Committee. The auditor reported on three observations, which require corrective action. 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.

Governmental Accounting Standards Board (GASB) Statement No. 68 Audit

The Office of Audit Services participates in a weekly working group that provides audited financial information to assist employers with their implementation of the new accounting standard, GASB 68. The Office of Audit Services continues to monitor Macias Gini & O’Connell LLP’s examination and validation testing currently in progress. The GASB 68 audit reports are estimated to be available to the employers by June 30, 2015.

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. A summary of the recommendations that remain open is presented on Attachment 4 along with management’s status updates.

Status of Audit Plan

The fiscal year 2014-15 Approved Audit Plan is in progress. The Office of Audit Services will continue to monitor and recommend any modifications of the audit plan to respond to changing conditions.

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 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 – 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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