

Office of Audit Services

# Proposed Audit Plan for Fiscal Year 2015-16 and Preliminary Audit Plan for Fiscal Year 2016-17



June 2015

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## **Section I – FY 2015-16 Proposed Audit Plan**

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Auditable Activity	Audit Objective
<b>PENSION AND HEALTH</b>	
Strategic goal A objective: educate employers and other stakeholders to make informed decisions about retirement security and health care	To identify and assess the internal control framework utilized to ensure achievement of the strategic objective - educate employers and other stakeholders to make informed decisions about retirement security and health care.
Public agency compliance reviews (100 standard + 25 targeted reviews)	To assess the accuracy of membership, payroll, and census data reported to CalPERS by employers contracting with CalPERS.
Census data reconciliation between my CalPERS and Actuarial Valuation System	To assess the completeness and accuracy of member data extracted from my CalPERS and used for actuarial valuations.
Government Accounting Standard Board (GASB) Statement No. 68 audit coordination	To coordinate activities related to GASB 68 audit. (GASB 68 audit is performed by the Board's independent auditor, covering contributions, benefit payments, census data, and pension liabilities)
Coordination for parallel valuation and certification services - State, public agency, Judges' Retirement System (JRS), Judges' Retirement System II (JRSII), Legislators' Retirement System (LRS), and 1959 survivor benefits program (SBP)	To coordinate activities related to parallel valuation and certification services for State, public agency, JRS, JRSII, LRS and 1959 SBP. (Parallel valuation and certification services are performed by the Board's independent actuary, covering calculations of actuarial valuations)
Refunds	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with refunds.
Judges Retirement System (JRS)	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with the JRS.
Administration of Old Age and Survivors' Insurance (OASI) program	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with Federal OASI program.
Health premium receipts and disbursements for flex-funded health plans	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with receipts and disbursements of health premiums for flex-funded plans.

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Auditable Activity	Audit Objective
<b>PENSION AND HEALTH (continued)</b>	
Contingency Reserve Fund (CRF)	To assess the adequacy and effectiveness of controls implemented to mitigate reporting and compliance risks associated with CRF.
Health plan contract compliance reviews (2)	To assess whether the health plan is in compliance with specific provisions of Public Employees’ Medical and Hospital Care Act (PEMHCA) and the agreement with CalPERS.
Long Term Care (LTC) program administration	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with LTC program.
Coordination for parallel valuation and certification services (LTC program).	To coordinate activities related to parallel valuation and certification services for LTC program.
Other Post Employment Benefits program (consulting)	To participate in discussions with program and external auditors on Governmental Accounting Standards Board statement implementation and other areas as needed.
Protection of health-related information (HIPAA)	To assess the adequacy and effectiveness of controls implemented to protect health-related information.
Rate development for Health Maintenance Organizations (HMO) (finalize prior year)	To assess whether the rate development processes for HMO plans are consistent and reasonable.
Review of third party administrator for self-funded program (finalize prior year)	To evaluate whether Anthem Blue Cross complies with specific provisions of PEMHCA and the agreement with CalPERS.
User entity control review - health	To assess the effectiveness of controls specified and relied upon by CalPERS health-related service providers.
<b>INVESTMENTS</b>	
Real assets investments financial reporting	To assess the adequacy of controls implemented to mitigate risks of inaccurate reporting on real asset values.
Real assets external manager reviews (8)	To plan, coordinate, and manage real assets compliance audits. (Real assets compliance audits are performed by contracted auditors.)
Global equity program	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with global equity program.

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Auditable Activity	Audit Objective
<b>INVESTMENTS (continued)</b>	
Private equity external manager reviews (2)	To assess private equity external managers' compliance with operating agreements and specific CalPERS investment policies.
Targeted investment program	To assess the adequacy and effectiveness of controls implemented to mitigate operational and reporting risks associated with targeted investment program.
Investment commitment disclosures	To assess the adequacy of controls implemented to mitigate financial reporting risks associated with investment commitment disclosures.
User entity control review - Investment (finalize prior year)	To assess the effectiveness of controls specified and relied upon by CalPERS investment-related service providers.
<b>INFORMATION TECHNOLOGY</b>	
Cyber threats assessment and management review	To identify and assess the control framework utilized by the Information Security function to assess, mitigate, and respond to cyber security risks.
Network security management review	To evaluate the effectiveness of network security management, with a focus on structure, process, policies, procedures and management monitoring.
Management of aging infrastructure	To evaluate the management of IT equipment life cycle to mitigate operational risks.
IT asset management - software risk assessment (consulting)	To assess CalPERS software management practices and controls implemented to minimize operational, reporting, and compliance risks.
IT asset management - hardware (finalize prior year)	To evaluate the adequacy and effectiveness of controls implemented to manage information technology (IT) hardware assets.
my CalPERS user access controls review (finalize prior year)	To assess the appropriateness of access rights granted to internal my CalPERS users.
Remote access control review (finalize prior year)	To assess the effectiveness of controls designed to reduce remote access risks.
Patch management review (finalize prior year)	To evaluate the design and implementation of desktop and server patch management practices.

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Auditable Activity	Audit Objective
<b>INFORMATION TECHNOLOGY (continued)</b>	
PeopleSoft Human Capital Management (HCM) system (finalize prior year)	To evaluate the adequacy and effectiveness of controls implemented to protect the privacy and integrity of information stored in PeopleSoft HCM.
<b>ENTERPRISE-WIDE/OTHER AUDIT ACTIVITIES</b>	
Strategic goal B objective: actively manage business risks with an enterprise-wide view	To identify and assess the internal control framework utilized to ensure achievement of the strategic objective: actively manage business risk with an enterprise-wide view.
Strategic goal C objective: clarify and communicate CalPERS perspective on pension, health, and financial markets	To identify and assess the internal control framework utilized to ensure achievement of the strategic objective: clarify and communicate CalPERS perspective on pension, health, and financial markets.
Management of administrative expenses	To assess the adequacy and effectiveness of controls implemented to mitigate operational, reporting, and compliance risks associated with administrative expenses.
Coordination for financial audits	To coordinate activities related to the audit of CalPERS Basic Financial Statements. (Financial audit is performed by the Board's independent auditor.)
Board election (consulting)	To serve as an independent observer during ballot processing and counting activities. Identify opportunities to strengthen the process.
Internal control over financial reporting (finalize prior year)	To assess proper classification of PERF funds.
Consulting engagements	To perform consulting engagements based on management's ad hoc requests.
Quality assurance and improvement program - internal assessment	To conduct a self-assessment and evaluate OFAS' conformance with the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.
Quality assurance and improvement program - external assessment	To coordinate an external review of OFAS' conformance with the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.
Enterprise-wide risk assessment and audit planning	To conduct risk assessments and prepare a risk-based audit plan for fiscal year 2016-17 and a preliminary audit plan for fiscal year 2017-18.

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<b>Auditable Activity</b>	<b>Audit Objective</b>
<b>ENTERPRISE-WIDE/OTHER AUDIT ACTIVITIES (continued)</b>	
Quarterly status reports	To monitor audit progress and resolution of outstanding audit issues and prepare quarterly status reports to the Risk and Audit Committee.



**Section II – FY 2015-16 Proposed Audit Plan and FY 2016-17  
Preliminary Audit Plan**

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FY 2015-16 Proposed Audit Plan and FY 2016-17 Preliminary Audit Plan

Auditable Activity	FY 15/16	FY 16/17
<b>PENSION AND HEALTH</b>		
Strategic goal A objective: educate employers and other stakeholders to make informed decisions about retirement security and health care	X	
Public agency compliance reviews (100 standard + 25 targeted reviews)	X	X
Census data reconciliation between my CalPERS and Actuarial Valuation System	X	X
Government Accounting Standard Board (GASB) Statement No. 68 audit coordination	X	X
Coordination for parallel valuation and certification services - State, public agency, Judges' Retirement System (JRS), Judges' Retirement System II (JRSII), Legislators' Retirement System (LRS), and 1959 survivor benefits program (SBP).	X	X
Refunds	X	
Judges' Retirement System (JRS)	X	
Administration of Old Age and Survivors' Insurance (OASI) program	X	
Health premium receipts and disbursements for flex-funded health plans	X	
Contingency Reserve Fund (CRF)	X	
Health plan contract compliance review (2)	X	
Long Term Care (LTC) program administration	X	
Coordination for parallel valuation and certification services (LTC program)	X	X
Other Post Employment Benefits program (consulting)	X	
Protection of health-related information (HIPAA)	X	
Rate development for Health Maintenance Organizations (HMO) (finalize prior year)	X	

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<b>PENSION AND HEALTH (continued)</b>		
Review of third party administrator for self-funded program (finalize prior year)	X	
User entity control review - health	X	
Employer contracts		X
Death benefits		X
Disability retirement		X
Service retirement		X
Strategic goal B objective: deliver superior end-to-end customer service that is adaptive to customer needs		X
Legislators' Retirement System		X
Member and employer contribution receipts and reconciliation		X
Strategic goal A objective: ensure high-quality, accessible, and affordable health benefits/contract for health benefits		X
Long Term Care third party administrator review		X
Health premium receipts and disbursements for self-funded plan		X
Health premium receipts and disbursements for non flex-funded health plans		X
Health Care Decision Support System (Data extracts and analysis from HCDSS-data warehouse)		X
<b>INVESTMENTS</b>		
Real assets investments financial reporting	X	
Real assets external manager reviews (8)	X	
Global equity program	X	
Private equity external manager reviews (2)	X	
Targeted investment program	X	

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Auditable Activity	FY 15/16	FY 16/17
<b>INVESTMENTS (continued)</b>		
Investment commitment disclosures	X	
User entity control review - Investment (finalize prior year)	X	
Private equity program		X
Security lending		X
Asset allocation		X
Global fixed income program		X
<b>INFORMATION TECHNOLOGY</b>		
Cyber threats assessment and management review	X	
Network security management review	X	
Management of aging infrastructure	X	
IT asset management - software risk assessment (consulting)	X	
IT asset management - hardware (finalize prior year)	X	
my CaIPERS user access controls review (finalize prior year)	X	
Remote access control review (finalize prior year)	X	
Patch management review (finalize prior year)	X	
PeopleSoft Human Capital Management (HCM) system (finalize prior year)	X	
Configuration and change management		X
Disaster recovery plan		X
System development life cycle		X
Business continuity planning		X
Operating systems management and controls		X
Physical security		X

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Auditable Activity	FY 15/16	FY 16/17
<b>ENTERPRISE-WIDE/OTHER AUDIT ACTIVITIES</b>		
Strategic goal B objective: actively manage business risks with an enterprise-wide view	X	
Strategic goal C objective: clarify and communicate CalPERS perspective on pension, health, and financial markets	X	
Management of administrative expenses	X	
Coordination for financial audits	X	
Board election (consulting)	X	X
Internal control over financial reporting (finalize prior year)	X	
Strategic goal B objective: recruit, retain, develop, and empower a broad range of talents against organizational priorities		X
Strategic goal B objective: use a focused approach to generate, test, refine and implement new ideas		X
Consulting engagements	X	X
Quality assurance and improvement program - internal assessment	X	X
Quality assurance and improvement program - external assessment	X	X
Enterprise-wide risk assessment and audit planning	X	X
Quarterly status reports	X	X