



Consent

Agenda Item 4d

September 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 June 30, 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 fourth quarter, the Office of Audit Services completed 31 public agency reviews with a total of 177 findings and one focus review. Of the 177 new findings, 53 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Currently, 55 reviews are in progress.

During the quarter, the Employer Account Management Division and the Benefit Services Division reported that 103 findings were resolved, leaving 375 open as of June 30, 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 June 30, 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, eight findings were resolved. Overall, we have noted a

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

During the fourth quarter, six internal audits were completed with a total of 19 findings in operational and compliance areas such as maintaining appropriate documentation, establishing written procedures, and third party administrator compliance with agreement terms. Please see Attachment 1 for additional information on internal audit findings.

Governmental Accounting Standards Board (GASB) Statement No. 68

The Office of Audit Services participated in a working group composed of staff from the Actuarial Office, Financial Reporting and Accounting Services, and Macias Gini & O'Connell LLP (MGO) that provided audited financial information to assist employers with their implementation of the new accounting standard, GASB 68. The actuarial valuation reports and auditor's reports for agent employers and school cost-sharing employers are completed. The actuarial valuation reports and auditor's report for public agency cost-sharing employers are in progress.

Real estate reviews

As of June 30, 2015, six real estate reviews were completed which included a total of 57 findings. A majority of the issues were related to property management such as incomplete tenant lease files and incomplete vendor or contractor files. During the fourth quarter, 33 findings were resolved, leaving 28 findings open as of June 30, 2015.

Five reviews are in progress and we anticipate issuing three reports in the first quarter of Fiscal Year 2015-2016. Real estate reviews are available upon request. Please see Attachment 1 for information on real estate findings.

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

The Board's financial statement auditors, MGO, 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 and their status are summarized in Attachment 2. Also, prior year findings and their status is summarized 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 MGO concurs that corrective actions has been implemented.

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

The State Controller's Office (SCO) issued the Review Report on Pension Controls and Mechanisms on September 9, 2014. The report did not identify any instances of pension spiking. SCO reported on one finding, which included six recommendations,

and one observation. A summary of the recommendations are summarized in Attachment 4 along with management's status updates.

Status of Audit Plan

- The 2014-15 approved audit plan included 90 public agency reviews. During Fiscal Year 2014-15, we issued 85 public agency final reports and completed 40 limited scope reviews for a total of 125 reviews.
- The internal audit plan included 53 projects. We completed 42 projects, including some projects started in prior fiscal years and 10 more were issued in draft by June 30, 2015. The draft reports will be issued shortly after we receive the division's responses.

Audit Services Staff Education and Experience

Standards 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, and benefit administration. In addition, staff exhibits a high level of educational achievement, complemented with many years of CalPERS and total audit experience, as seen in Tables 1 through 3 below.

**Table 1 – Office of Audit Services
 Audit Experience**

Total Office of Audit Services Experience (Years)	Staff
Up to Two	21
Three to Five	9
Six to Ten	13
More than 10	6

Table 2 – Total Years of Audit Experience

Total Audit Experience (Years)	Staff
Up to Two	9
Three to Five	7
Six to Ten	18
More than 10	15

Table 3 – Education

Education	Degrees
Associate of Arts	1
Bachelor of Arts or Science	47
Masters	12

Certifications

Audit Services staff, shown below in Table 4, hold a wide variety of professional certifications.

Table 4 – Professional Certifications

Certification	No. of Staff
Certified Public Accountant	11
Certified Internal Auditor	6
Certified Information Systems Auditor	2
Certified Investments and Derivatives Auditor	2
Certified Fraud Examiner	2
Chartered Global Management Accountant	1
Total Certifications	24

Quality Assurance and Improvement Program

Standards 1320 requires the Chief Auditor to communicate the results of the Quality Assurance and Improvement Program (QAIP) to senior management and the Board. As part of QAIP, the Office of Audit Services performs internal assessments of the internal audit activity through ongoing reviews and periodic self-assessments. We concluded that the Office of Audit Services generally conforms to the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. We identified completing reviews within budgeted hours and timeframe as an area to target for improvement in Fiscal Year 2015-16. 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 QAIP, 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 Fiscal Year 2014-15, the return response from internal management and public agencies was 34 and 20 percent, respectively. This is an increase in the response rates from the previous year by 12 percent for internal and 7 percent for public agencies. 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 2015-16.

Definition of Internal Auditing, the Code of Ethics, and the *Standards*

Standards 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.

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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