



Agenda Item 5b

September 16, 2015

ITEM NAME: Interagency Agreement (IA) for External Assessment of the Office of Audit Services Quality Assurance and Improvement Program

PROGRAM: Audit Services

ITEM TYPE: Action

RECOMMENDATION

Approve to engage the Department of Finance (DOF) to review the Office of Internal Audits Services Quality Assurance and Improvement Program (QAIP).

EXECUTIVE SUMMARY

The Office of Audit Services (OFAS) requests an approval to engage DOF to conduct the mandatory external assessment as required by the *International Standards for the Professional Practice of Internal Auditing (Standards)*. The mandatory external assessment allows California Public Employees' Retirement System (CalPERS) Chief Audit Executive (CAE) to state that the internal audit activity conforms with the *Standards*. This value-added evaluation also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

STRATEGIC PLAN

This agenda item supports Strategic Plan Goal B of the CalPERS 2012-17 Strategic Plan: Cultivate a high-performing, risk-intelligent, and innovative organization by delivering superior, end-to-end customer service that is adaptive to customer needs.

BACKGROUND

Standards 1300-1322 require a QAIP be maintained to cover all aspects of the internal audit activity. The QAIP review is required to include both an internal and external assessment. The external assessment must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organization. The review is designed to evaluate the internal audit activity's conformance with the mandatory *Standards* and to assess the efficiency and effectiveness of the internal audit activity. The review also identifies opportunities to improve the internal audit operation. The CAE may state that the internal audit activity conforms with the *Standards* if the results of the quality assurance and improvement program support this statement.

ANALYSIS

In considering of the costs and benefits, we examined the following three alternatives:

- Alternative 1 – Arrange an exchange of services with the California Association of State Auditors (CASA) to perform the review.
- Alternative 2 – Contract with an external firm to perform the review.
- Alternative 3 – Engage DOF to perform the review.

Alternative 1: We did not recommend Alternative 1 because the CASA peer review is an exchange of services. OFAS must commit staff to CASA to perform future peer reviews of other organizations. Currently, OFAS would not be able to allocate resources to fulfill the CASA peer review commitment while completing the annual Board approved audit plan.

Alternative 2: We did not recommend Alternative 2 because the RFP process would prolong the QAIP and the external services are generally more costly compared to a state inter-agency review. In addition, the time needed to prepare an RFP and select an external firm may delay the audit beyond the mandatory external assessment deadline.

Alternative 3: We selected Alternative 3 to engage DOF to review OFAS' internal audit operations and validate OFAS' self-assessment of internal audit activity. DOF is the Executive Branch auditor with broad oversight responsibilities that include quality assurance reviews as well as financial, performance, and information technology audits. DOF's quality assurance review is reimbursed through an interagency agreement for service based on staff work, facilities, travel, overhead and any computing equipment costs.

The CAE will communicate the results of the external assessment to senior management and the Board. The results will include the assessor's evaluation with respect to the degree of conformance with the *Standards*. When nonconformance impacts the overall scope or operation of the internal audit activity, the CAE must also disclose the nonconformance and the impact to senior management and the Board.

BUDGET AND FISCAL IMPACTS

The costs will be determined by the cost proposal from DOF.

BENEFITS/RISKS

The QAIP review will allow the CAE to state that the internal audit activity conforms with the *Standards*.

Failure to provide an independent assessment of the internal audit activity will not provide the Board with the appropriate reassurance needed to fulfill their fiduciary oversight responsibilities.

BELIZ CHAPPUIE, Chief
Office of Audit Services

MATTHEW G. JACOBS
General Counsel