



Consent

Agenda Item 4d

November 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 (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 September 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 first quarter, the Office of Audit Services completed 13 public agency reviews with a total of 123 findings. Of the 123 new findings, 54 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Of the 13 completed reviews, three included Governmental Accounting Standards Board Statement No. 67 (GASB 67) census data testing. Of the 85 reviews in progress, 54 included GASB 67 census data testing. The testing results were provided to CalPERS' external auditors to assist with their testing of active member census data for selected public agencies who participate in CalPERS' cost-sharing plan. OFAS plans to complete the compliance reviews for these agencies before issuing results on the GASB 67 testing. Further, OFAS is working with Customer Services and Support in updating the Audit Resolution Policy and developing underlying procedures to support the policy.

During the quarter, the Employer Account Management Division and the Benefit Services Division reported that 125 findings were resolved, leaving 373 open as of

September 30, 2015. The Office of Audit Services is in the process of validating the reported resolution of findings. Please refer to Attachment 1 for additional information on public agency findings.

Internal audits

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

During the first quarter, nine internal audits were completed with a total of 24 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 first quarter, one real estate review was completed which included a total of 31 findings. A majority of the issues were related to property management such as insufficient insurance coverage by lessees or contractors as required by agreement, lack of non-discrimination clauses in service agreements, calculation of development fees inconsistent with development agreements, and insufficient documentation supporting competitive bidding for service agreements. 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.

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

The State Controller's Office issued its 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 recommendations are summarized in Attachment 4 along with management's status updates.

Status of Audit Plan

The fiscal year 2015-16 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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