

April 19, 2016

**Item Name:** Quarterly Status Report – Office of Audit Services

**Program:** Audit Services

**Item Type:** Information Consent

**Recommendation**

Not Applicable.

**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 for the quarter ending December 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 status.

**Analysis**

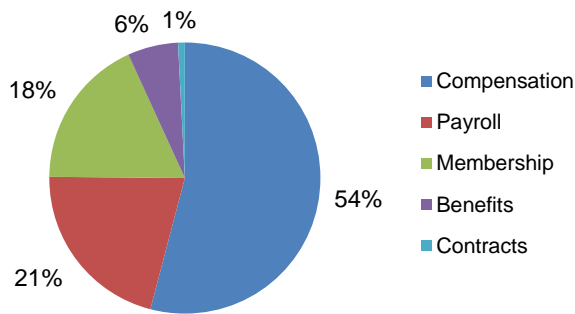
Public Agency Reviews

During the second quarter, the Office of Audit Services completed 12 public agency reviews with a total of 115 findings. Of the 115 new findings, 46 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Currently, 72 reviews and 25 focused reviews are in progress.

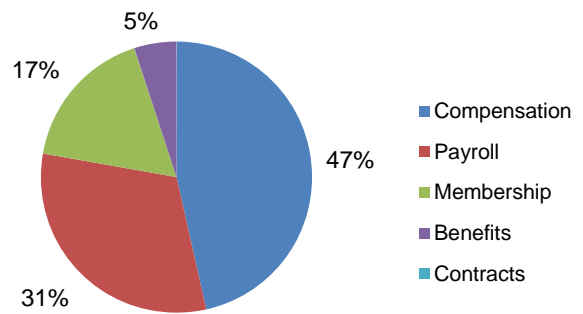
During the quarter, the Employer Account Management Division and the Benefit Services Division reported that 117 findings were resolved, leaving 371 open as of December 31, 2015. The Office of Audit Services is in the process of validating the reported resolution of findings. Please refer to Attachment 1 for additional information on public agency findings.

The charts below provide a summary of the types of findings. Detail on all findings is available upon request from the Office of Audit Services and has been distributed to all appropriate divisions.

**Figure 1 - Current Findings in Q1**



**Figure 2 - Current Findings in Q2**



**Internal Audits**

As of December 31, 2015, there are no unresolved internal audit findings over one year old, continuing the enterprise’s compliance with the Board approved Audit Resolution Policy. During the quarter, 22 findings were resolved. Overall, we have noted a significant trend toward more timely resolution of internal audit findings over the past several years.

During the second quarter, two internal audits were completed with a total of 17 findings in operational areas such as updating written procedures, monitoring staff access within my|CalPERS, and accurate tracking of CalPERS hardware assets. Please see Attachment 1 for additional information on internal audit findings.

**Real Estate Reviews**

During the second quarter, seven real estate reviews were completed which included a total of 44 findings. A majority of the issues were related to property management: insufficient insurance coverage by lessees or contractors, lack of non-discrimination clauses in service agreements, pay rates or payroll allocations not agreeing with operating agreements, and expense reimbursements not being supported. 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 draft management letter prepared by Macias Gini & O’Connell LLP for fiscal year ended June 30, 2015, as well as the status of prior years’ observations, will be presented in Agenda Item 7b. Observations in the 2015 management letter, as well as any remaining observations from prior years, will be reported to the Risk and Audit Committee until each observation is fully resolved and Macias Gini & O’Connell LLP concurs that corrective actions have 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 2 along with management’s status updates.



### Status of Audit Plan

The Fiscal Year 2015-16 Approved Audit Plan is in progress. In order to support key enterprise initiatives and management requests and in light of staff vacancies, the Office of Audit Services proposes deferring the internal audits listed below:

- Strategic goal A
- Strategic goal B
- Strategic goal C
- PE External Manager (2)
- Board Election
- Cyber threats assessment and management review
- Protection of health-related information (HIPAA)

### **Budget and Fiscal Impacts**

Not Applicable.

### **Benefits and 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 – Summary of State Controller’s Office Review Report on Pension Controls and Mechanisms

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BELIZ CHAPPUIE, Chief  
Office of Audit Services

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MATTHEW G. JACOBS  
General Counsel